Issues paper

AusNet Services electricity distribution determination 2026-31

March 2025

AUSTRALIAN ENERGY REGULATOR

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a safe, secure, reliable, and affordable energy future for Australia.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2025, we received revenue proposals from Victorian electricity distributors AusNet Services (AusNet), CitiPower, Powercor, United Energy and Jemena Electricity Networks (Jemena) for the period 1 July 2026 to 30 June 2031 (2026–31 period). In assessing these proposals, it is our role to ensure that consumers pay no more than is necessary for an energy system that delivers safe, reliable, secure energy that contributes to the reduction of greenhouse gas emissions.

This Issues paper focusses on AusNet's proposal, for the distribution network and services it provides to consumers in the outer northern and eastern suburbs of Melbourne and in eastern Victoria.[1] It identifies preliminary issues we consider are likely to be relevant to our assessment of the proposal.

You can read more about proposals from other Victorian distributors in our Issues papers for CitiPower, Powercor and United Energy and Jemena.

1.1 Our process

This Issues paper is the first stage in our consultation on AusNet's proposal. Submissions and views shared with us in this stage of consultation will help to inform our draft decision on that proposal later this year. AusNet will then have the opportunity to respond to any concerns raised in our draft decision in a revised proposal. We will seek further submissions on both draft decision and revised proposal before making our final decision in April 2026.

An indicative timeline for this process is provided below.

Table 1-1 Indicative timeline

Milestone	(Indicative) timeline
Regulatory proposal submitted to AER	31 January 2025
AER Issues paper	28 March 2025
AER Public forum	1 April 2025
Submissions on proposal and issues paper close	14 May 2025
AER draft decision	(September 2025)
Revised proposal submitted to AER	(December 2025)

[1] Victorian consumers can find out who their electricity distributor is by visiting: https://www.energy.vic.gov.au/households/find-your-energy-distributor

Milestone	(Indicative) timeline
Submissions on draft decision and revised proposal close	(January 2026)
Final decision	(April 2026)

1.2 Have your say

Interested stakeholders are invited to make a submission on AusNet's proposal by Wednesday, 14 May 2025.

Submissions should be sent to: vic2026@aer.gov.au and addressed to Kris Funston, Executive General Manager Network Regulation.

Alternatively, you can mail submissions to GPO Box 3131, Canberra ACT 2601.

Submissions should be in Microsoft Word or another text readable document format.

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.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.

1.2.1 Public forum

Please join us at an online public forum on Tuesday, 1 April 2025 to learn more about our process, and the proposals AusNet and other Victorian electricity distributors (CitiPower, Powercor, United Energy and Jemena) have submitted for the 2026-31 regulatory control period.

Details of how to register for this forum are available on our website.

2 Initial observations

AusNet's proposal, and our assessment of it, come at a time of significant change. Emissions reduction targets and the transition to net zero, now reflected in the National Electricity Objective (NEO), are driving changes in household and commercial energy use. In Victoria we are starting to see the impacts of increasing electrification and uptake of Consumer Energy Resources on the way that energy networks operate and invest in order to continue delivering safe, reliable and secure supply of essential services.

In recent years we have also seen a number of severe weather events, with storms in 2021 and 2024 resulting in prolonged power outages for hundreds of thousands of Victorian customers. Victorian Government reviews into electricity distribution network resilience, outage planning and operational responses have made a number of recommendations, some already in train. Resilience—the network's ability to continue to adequately provide network services and recover those services when subjected to disruptive events—has, unsurprisingly, been a focus of AusNet's engagement with consumers and stakeholders in development of its proposal and has emerged as a key driver of new expenditure proposed for the 2026-31 period.

AusNet's proposal responds to these challenges with significant increases in operating and capital expenditure, which will require close examination. Investment in the distribution network over the next 5 years will have long term impacts on energy costs. We need to be satisfied that the proposal reflects prudent and efficient investment to maintain the network and prepare it to support the energy transition. We need to balance that assessment with ongoing cost-of-living pressures so that consumers pay no more than is necessary—in the 2026-31 period and beyond it—for an energy system that delivers safe, reliable, secure energy that contributes to the reduction of greenhouse gas emissions.

In the sections below we explore the key drivers of AusNet's proposed revenue for the 2026-31 period, and the preliminary issues we consider are likely to be relevant to our assessment of its proposal.

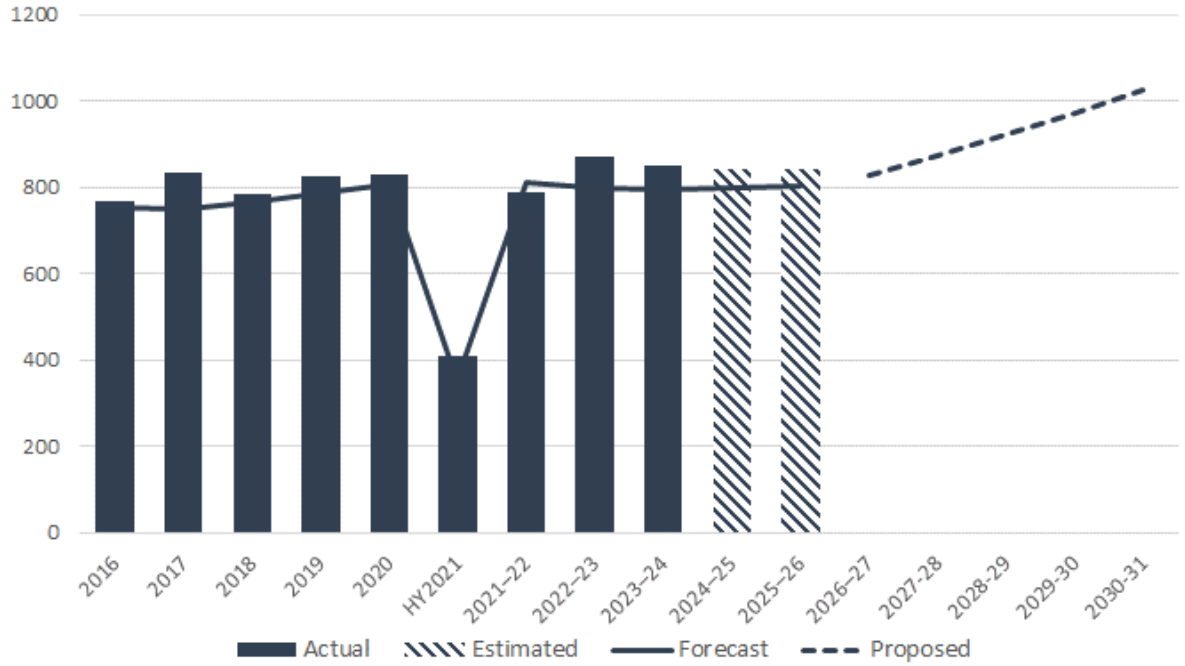
2.1 Key drivers of proposed revenue

AusNet has proposed total revenue of $4,990.7 million ($nominal, smoothed) to be recovered from electricity customers over the 2026–31 period. This is 40.7% higher than what we approved for the 2021–26 period.

To compare revenue from one regulatory period to the next on a like-for-like basis, we make an adjustment for the impact of inflation. To do this, we use 'real' values based on a common year (in this case, 2025–26) that have been adjusted to remove the impact of inflation.

In real terms, AusNet's proposal would allow it to recover $4,622.2 million ($2025–26, unsmoothed) from consumers over the 2026–31 period. This is $619.1 million (15.5%) higher than our decision for the current (2021–26) period. We estimate that approximately 44% of the increase from the 2021–26 period is driven by market factors including higher inflation and interest rates. The other 56% of the increase is mainly driven by increases in capital and operating expenditure. Changes in AusNet's regulated revenue over time are shown in Figure 2-1.

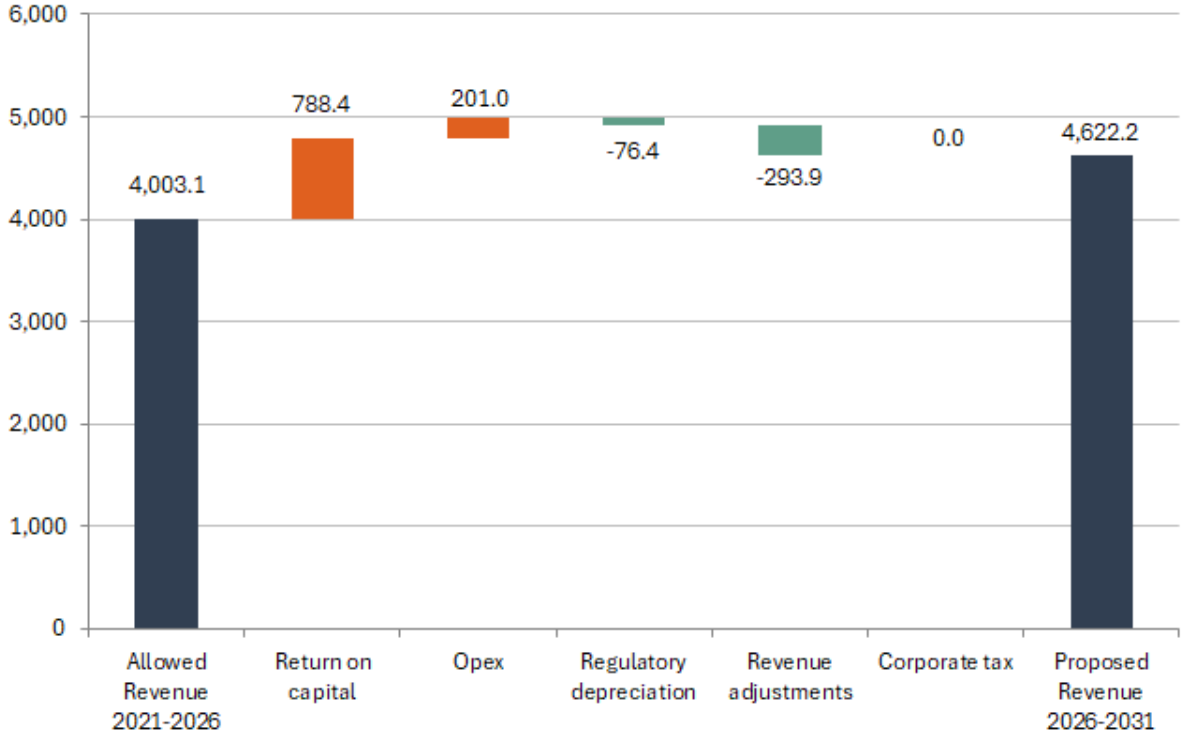
Figure 2-1 Changes in regulated revenue over time ($ million, 2025–26)



Source: AER analysis.
Note: 'HY2021' in the chart refers to the half-year extension period of 1 January 2021 to 30 June 2021 due to the transition from a calendar year regulatory period to a financial year basis that occurred in 2021.

Figure 2-2 highlights changes in AusNet's proposal at the "building block" level to illustrate what is driving its proposed increase in real revenue from 2021–26 to 2026–31.

Figure 2-2 Changes in total revenue between the 2021–26 period and the 2026–31 period ($ million, 2025–26, unsmoothed)

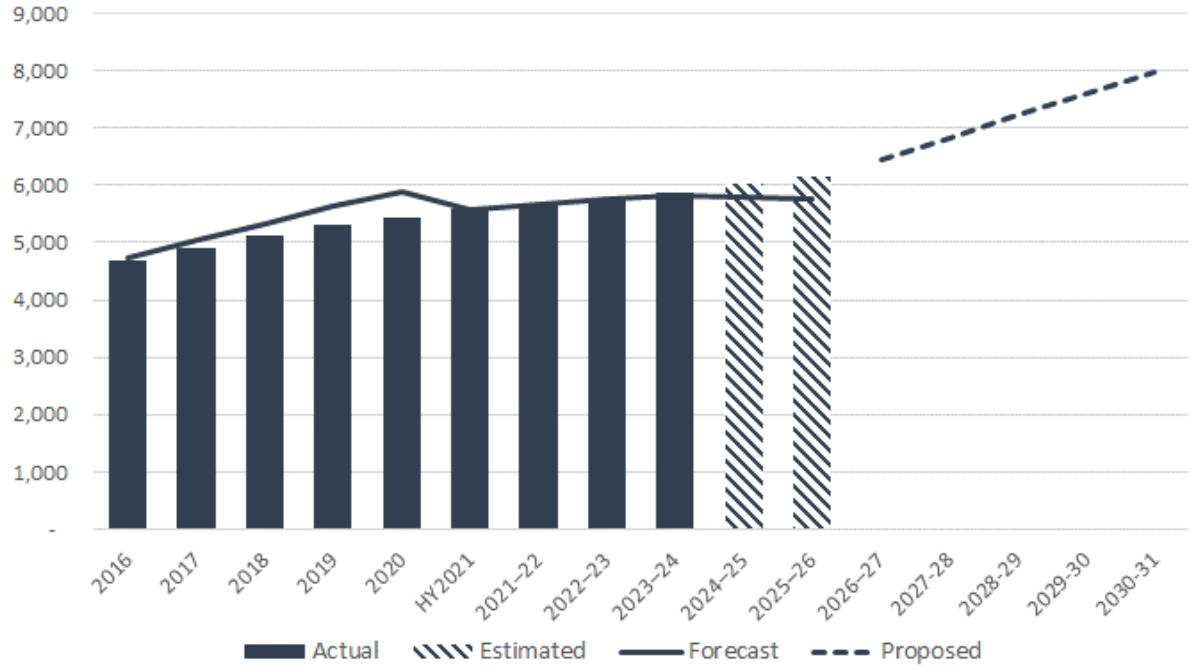


Source: AER analysis.
Note: This comparison is based on converting 2021–26 allowed revenue for inflation to 2025–26 dollar terms using lagged CPI. The opex building block comparison excludes any cost pass through amounts recovered through a c-factor in the current 2021–26 period.

The overall upward trend in revenue is primarily driven by a higher return on capital. This is driven by AusNet's higher projected RAB and higher regulated rate of return in the 2026–31 period. AusNet's opening regulatory asset base (RAB) as at 1 July 2026 is higher than forecast at the time of our last determination. This is due in part to actual inflation being higher than forecast inflation included in our 2021–26 determination. AusNet's actual capital expenditure (capex) in the 2021–26 period is also expected to be higher than the capex forecast approved at that time (see Figure 3-2).

Figure 2-3 shows the value of AusNet's RAB over time in real terms. RAB values substantially affect a network businesses' revenue requirements, and the total costs customers ultimately pay. We expect the RAB to change over time, as capital investment will depend on the network's age and technology, load characteristics, the levels of new connections and reliability and safety requirements. AusNet has proposed a significant uplift in capex (+71.7%) for 2026–31, which is driving a 29.8% growth in the forecast RAB from the beginning to the end of the 2026–31 period.

Figure 2-3 AusNet's RAB value over time ($ million, 2025–26)



Source: AER analysis.

AusNet has also proposed an increase in its operating expenditure (opex) relative to our determination for the current period, driven largely by a series of step increases to cover regulatory and market changes, and its growing focus on network resilience and safety during severe weather events.

The resultant increase in AusNet's proposed revenue is partially offset by:

- Lower regulatory depreciation, driven by a higher expected inflation and a reduction in accelerated depreciation compared to the 2021–26 period.[2]
- Lower revenue adjustments under AER incentive schemes compared to the current period, including a large negative carryover under the Capital Expenditure Sharing Scheme to provide a fair sharing of capex spent in excess of our approved forecast for 2021-26 between AusNet and its customers.

In both the 2021–26 period and 2026–31 period, AusNet is expected to have no estimated cost of corporate income tax.

2.2 What would this proposal mean for electricity bills?

For illustrative purposes, AusNet's proposal proposed revenue would result in network tariffs that are 6.8% higher ($nominal) on average over the 2026–31 period compared to 2025–26 levels.

[2] Regulatory depreciation is straight-line depreciation less inflation on the RAB. Therefore, a higher expected inflation reduces the regulatory depreciation building block, all else equal.

The cost of the distribution network components of the electricity supply chain makes up about 36% of the average electricity bill for household customers and 42% for small business customers in AusNet's network area and is ultimately recovered through electricity retail charges.[3]

For illustrative purposes again, AusNet's proposal estimates the impact of its proposed revenue on the average distribution network component of an annual electricity bills over the 2026–31 period would be:

- $46 (2.4%) higher ($nominal) than 2025–26 for household customers
- $239 (2.9%) higher ($nominal) than 2025–26 for small business customers.

These network tariff and bill impact outcomes are not set by our determination. They are high level estimates calculated by dividing AusNet's forecast revenue by its forecast of the energy that will be delivered through its network over the 2026–31 period. This means that for the same amount of revenue an increase in energy delivered would lead to lower tariffs over the period, and vice versa.

Under the revenue cap form of control that currently applies to AusNet, our determination sets the maximum regulated revenue AusNet can recover for each year of the regulatory control period. That revenue cap imposes a binding constraint: AusNet can only recover revenue equal to or less than the maximum regulated revenue. It complies with this constraint by forecasting volumes for each year and setting prices for that year such that its expected revenue is equal to or less than the maximum regulated revenue. At the end of each year, AusNet reports its actual revenue to us. Any differences between the actual revenue recovered and the maximum regulated revenue are then accounted for in future years.[4] This means the risk of over-forecasting demand is borne by customers, rather than by AusNet. Under other forms of control, such as price caps, that demand risk is borne by the distributor (see further discussion below).

In considering the estimated bill impacts above, this means that customers would be protected from volume risk if the actual energy delivered by AusNet in the 2026–31 period is higher than its forecast. That is, AusNet will not be entitled to earn more revenue as a result of higher demand. In this case average network tariffs would be lower than expected.

However, if actual energy delivered is lower than AusNet's forecast, customers could experience higher distribution network tariffs than expected because AusNet is still entitled to recover the revenue we determine, regardless of the actual energy delivered.

AusNet forecasts the amount of annual energy delivered through its network will have increased from 8153 GWh in 2025–26 to 9642 GWh in 2030-31: a significant increase of 1489 GWh, or 18%. This is the forecast that has informed the illustrative estimates of tariff and bill impacts in its proposal.

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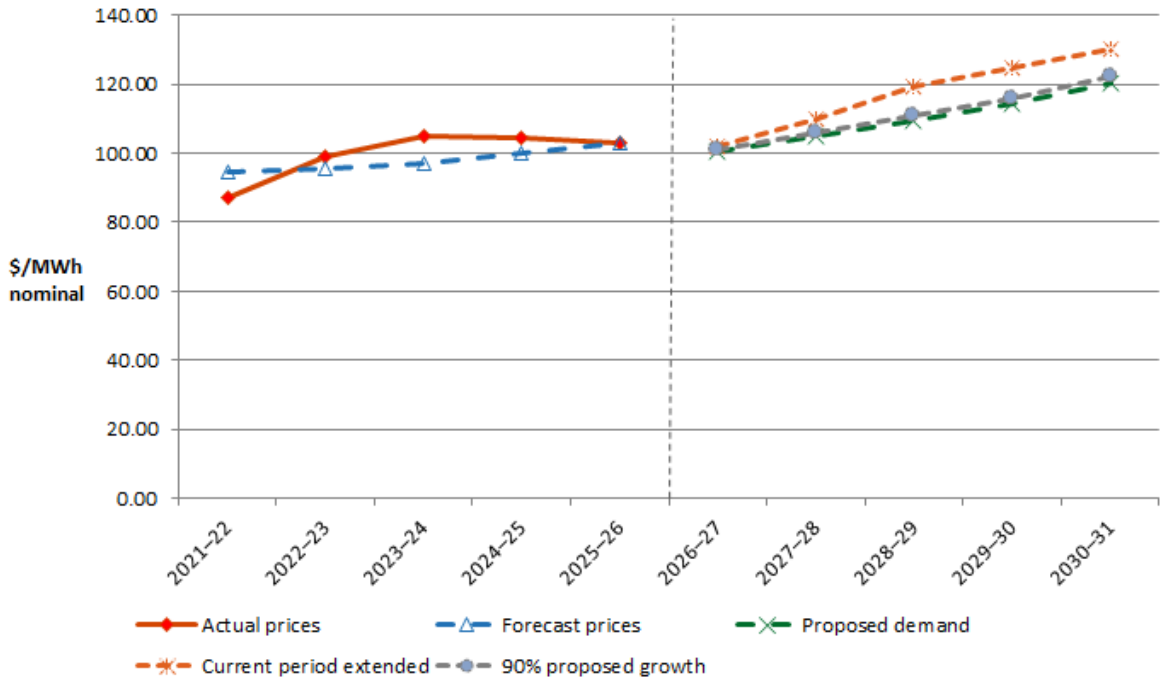
3 AusNet, *RIN 9 - Workbook 5 - Bill Impacts*, January 2025.

4 This operation occurs through an "overs and unders" account, whereby any over-recovery (under-recovery) is deducted from (added to) the maximum regulated revenue in future years.

However, if the amount of energy delivered through AusNet's network were to increase at a slower rate, the impact of its proposed revenue on tariffs would be higher. Figure 2-4 illustrates the following examples:

- Based on AusNet's forecast energy delivered increase (18%), customers could see 6.8% higher average annual distribution network tariffs ($nominal) compared to 2025–26 levels.[5]
- However, if energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period (9%), customers could see 13.8% higher average annual distribution network tariffs ($nominal) compared to 2025–26 levels.[6]
- Even if energy delivered were to increase at a faster rate than what we have seen to date, but 10% lower than what AusNet has forecast, customers could see 7.8% higher average annual distribution network tariffs ($nominal) compared to 2025–26 levels.[7]

Figure 2-4 Sensitivity of energy delivered on distribution network tariffs 2026–31 ($/MWh, nominal)



Source: AER analysis

5 In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 1.0% lower than 2025–26 levels.

6 In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 5.4% higher than 2025–26 levels if energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period.

7 In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected roughly equal to 2025–26 levels if energy delivered were to increase at 10% lower than the proposal forecast.

Estimated bill impacts under the lower energy delivered scenarios would also change:

- If energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period, customers could see average annual bills that are $94 (4.9%) higher than 2025–26 for residential customers and $486 (5.8%) higher than 2025–26 for small business customers ($nominal). This is in contrast to AusNet's estimate of $46 (2.4%) and $239 (2.9%) higher average annual bills for residential and small business respectively.
- If energy delivered were to increase at a faster rate than what we have seen to date, but 10% lower than AusNet has forecast, customers could see average annual bills that are $53 (2.8%) higher than 2025–26 for residential customers and $277 (3.3%) lower than 2025–26 for small business customers ($nominal).

Price cap vs revenue cap regulation: how current forms of control differ for gas and electricity networks

Victoria's gas distribution networks are subject to a different form of control. In their gas distribution access arrangements, we set a weighted average price cap instead of a revenue cap.

Under a weighted average price cap, a target revenue is established which the distributor uses to set its prices based on forecast volumes. That cap on prices, rather than revenue, is the binding constraint. This means that:

- If actual volumes are lower than forecast volumes used to set tariffs, the distributor will sell less but must do so at the same price. It will therefore not recover the full amount of revenue we targeted with our access arrangement determination.
- If actual volumes are higher than forecast volumes used to set tariffs, the distributor will be able to sell more at the same price. It will therefore recover more than the revenue we targeted with our access arrangement determination.

Therefore, in contrast to a revenue cap, the distributor faces demand risk as opposed to customers.

2.3 Forecast demand and consumption

Demand for electricity plays a crucial role in forecasting network expenditure. This includes:

- augmentation expenditure – the construction of new assets to service added demand and higher peak demand.
- replacement expenditure – the renewal or replacement of assets which can be accelerated by increased demand.
- connections expenditure – typically driven by growth in residential customer numbers, however new drivers of larger and more expensive connections are emerging, including data centres, batteries and electric vehicle charging stations.

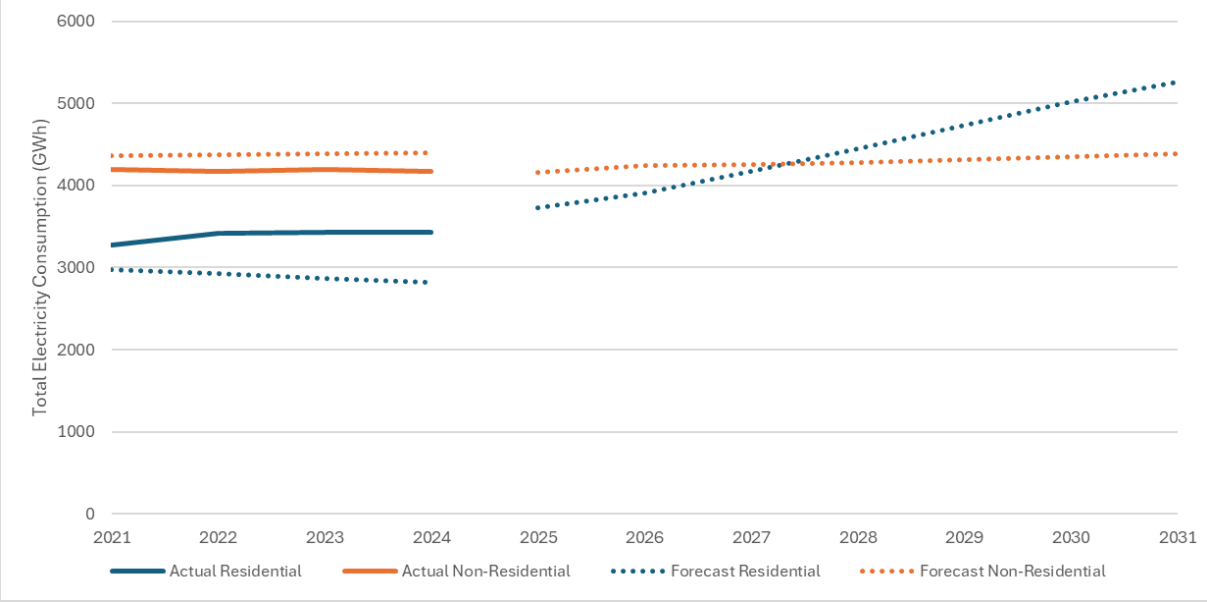
It is essential that demand forecasts are accurate to ensure that customers are not paying more than necessary. As noted in section 2.2, under the revenue cap control mechanism, prices are adjusted each year for errors in forecast demand that result in revenue recovery

above or below the allowed revenue. This means that customers could experience higher distribution network tariffs than expected if actual demand is less than forecast demand.

The regulatory framework includes some mechanisms which can mitigate uncertainty associated with demand forecasts. These mechanisms include cost pass through events and contingent projects, which can be specified in the distribution determination. Cost pass throughs can increase or decrease allowed revenue, whereas contingent projects only increase allowed revenue. Both mechanisms are subject to a materiality threshold prescribed by the NER. AusNet has proposed a new cost pass through event related to electrification of homes and its potential impact on demand and costs in its proposal.

As shown in Figure 2-5, AusNet forecasts that total consumption will increase to 9,640 GWh in 2031, an increase of 27% compared to actual total consumption in 2024. This includes a forecast increase of 53% in residential consumption and 5% in non-residential consumption.

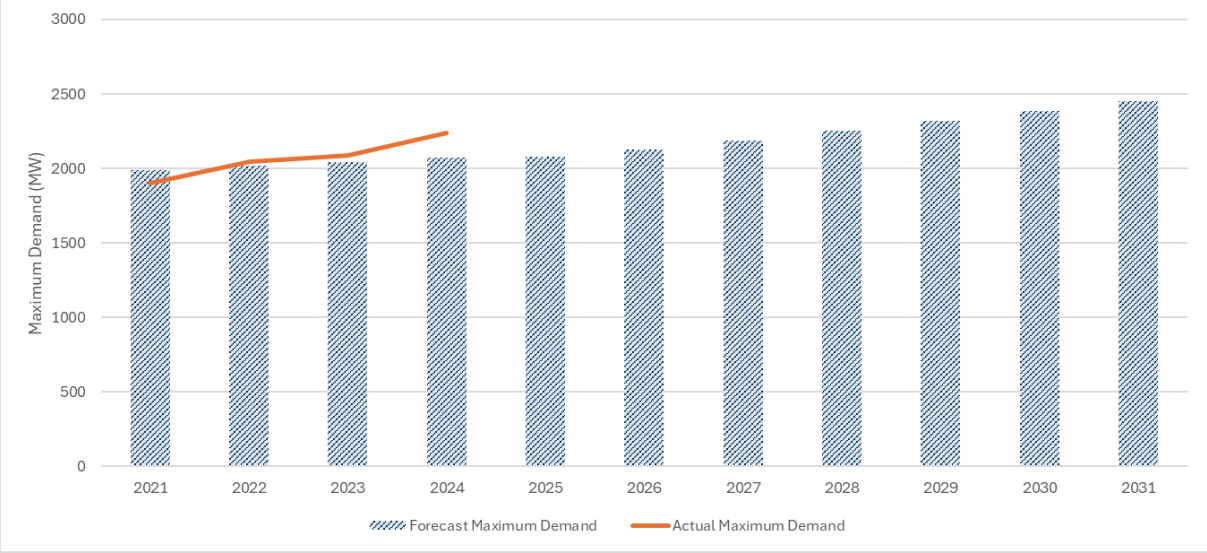
Figure 2-5: Forecast and actual consumption by customer type



Source: 2021 Reset RIN and Economic Benchmarking RIN (2021-24 data), 2026 Reset RIN (2025-31 data).

As shown in Figure 2-6, AusNet forecasts that maximum demand will increase to 2,449 MW in 2031, an increase of 10% compared to actual maximum demand in 2024.

Figure 2-6 Forecast and actual maximum demand



Source: 2021 Reset RIN and Economic Benchmarking RIN (2021-24 data), 2026 Reset RIN (2025-31 data).
Note: Maximum demand refers to non-coincident summated weather adjusted system annual maximum demand, 50% probability of exceedance.

Questions on demand forecasts

1) Do you have any feedback on the demand forecasts that have informed AusNet's proposal?

2.4 Network utilisation

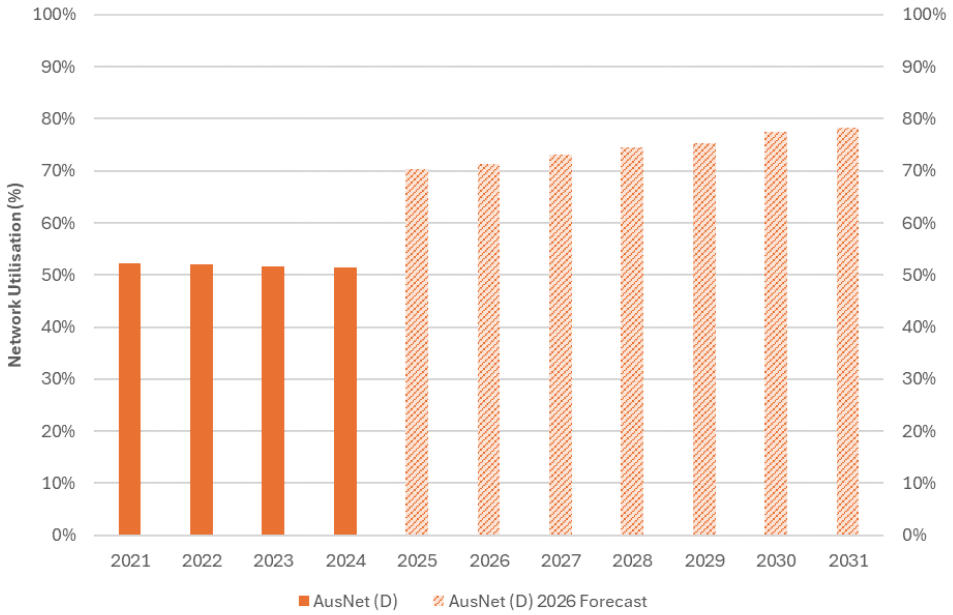
Network utilisation refers to the extent that network assets are used to meet customer demand. We calculate utilisation by dividing non-coincident maximum demand by the total capacity of the DNSP's zone substation transformers. Low utilisation means that a network can service large increases in peak demand but could indicate that customers are paying for network assets they rarely use. Conversely, high levels of utilisation could indicate that investment is necessary to meet increases in peak demand.

The Victorian DNSPs have high rates of network utilisation compared to DNSPs in other jurisdictions. This reflects several factors, including:

- The use of probabilistic planning practices instead of deterministic planning
- The use of smart meters enabling the Victorian DNSPs to plan more precisely, by having access to more granular and accurate customer load data
- Tariff innovation, such as the use of critical peak demand pricing for large customers.

As shown in Figure 2-7, AusNet forecasts that its network utilisation will increase to 78% in 2031.

Figure 2-7 Forecast network utilisation



Source: 2021 Reset RIN (2021-24 data), 2026 Reset RIN (2025-31 data).
Note: Network utilisation is calculated by dividing non-coincident summated weather adjusted system annual maximum demand, 10% POE (MVA) by the total zone substation transformer capacity (MVA).

Questions on network utilisation

2) How well do you think AusNet's proposal takes existing and forecast network utilisation levels into account?

2.5 Consumer engagement and the Better Resets Handbook

AusNet supplies an essential service to Victorian consumers. High quality consumer engagement is critical to AusNet's development of a proposal that supports delivery of services and outcomes that reflect consumers' needs and preferences. Our framework for considering consumer engagement in network revenue determinations is set out in the Better Resets Handbook:

- We look to the nature of engagement, and how networks engage with their consumers. Our expectations are that network businesses will sincerely partner with consumers and equip them to effectively engage in the development of their proposals.
- We consider the breadth and depth, including the scope of issues on which consumers were engaged and at what level of detail. The breadth and depth of engagement also covers the variety of avenues used to engage with consumers
- We have regard to how a proposal represents and is shown to represent consumer views. We look for evidence of a clear link between consumer research and engagement, a network business's representation of the outcomes desired by consumers, and how the proposal gives effect to those outcomes.

Experience shows that proposals that genuinely reflect consumer preferences, and which also meet our expectations for capex, opex, depreciation and tariff structure statements, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.

In the lead up to submission of its proposal, AusNet identified a number of key themes emerging from its engagement with customers:[8]

- **Energy affordability**—which has always been and remains extremely important to AusNet customers. While the energy transition may lower bills, AusNet itself should do what it can to contribute to affordability.
- **Continuous improvements to customer service**—across existing and new interactions

Engagement also suggested AusNet's customers are placing increasing importance on:

- **More reliable electricity**—including during extreme weather events that are becoming more common. This is seen as particularly important as households electrify.
- **An innovative network**—with AusNet always looking for better, more efficient ways of doing things.

New areas of focus included:

- **A fair and equitable transition**—including customers in regional areas and customers with special needs, who are at risk of getting 'left behind.
- **Agency**—customers want information on what's happening, and to feel supported through change and being able to make decisions and act in their long term interests.
- **Preparing for net zero**—by ensuring AusNet's network can support rooftop solar, large renewables and electrification of transport and gas.

In addition to expectations for engagement, the Handbook also sets out our expectations (consistent with the NER framework) in topic areas such as capex, opex, regulatory depreciation and tariff structure statements, which tend to have the most significant impact on consumers. AusNet's proposals for significant uplifts in capex and opex, and the number and magnitude of proposed opex step changes, do not meet Handbook expectations for steady growth in spending that might have lent themselves to a relatively limited or targeted review. Where consumers have expressed support for the outcomes AusNet seeks to achieve, our role is to now carefully assess the prudency and efficiency of the expenditure AusNet submits is necessary to deliver them.

Customer support is an important part of this assessment. The National Electricity Rules (NER) require us to consider the extent to which AusNet's proposed forecasts of opex and capex include expenditure to address the concerns of its end users, as identified by AusNet in the course of its engagement with end users or groups representing them.[9] It is a factor to which we must have regard in determining whether the total forecasts of opex and capex

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8 AusNet, *Electricity Distribution Price Review 2026 - 2031 Regulatory Proposal*, January 2025, p. 9.

9 NER, cll. 6.5.6(e)(5A), 6.5.7(e)(5A).

AusNet has proposed reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs.[10]

In considering other capex and opex factors we will look to supporting information including AusNet's governance and the robustness of its forecasting methods. We will also consider in-depth business cases. Before expenditure is approved, we need to satisfy ourselves that it not only addresses the concerns and preferences of its users but does so prudently and efficiently and that the ambitious programs for which AusNet is seeking to recover costs can actually be delivered in the timeframes proposed. Together, these considerations support a decision that will ensure AusNet's customers are paying no more than necessary for safe, reliable and secure delivery of their electricity distribution services and the outcomes they have told AusNet they value.

Similarly, the effectiveness and outcomes of AusNet's engagement on its tariff structure statement, including its export tariff transition strategy,[11] will inform our assessment of proposed tariff structures. For example, we will have regard to information exchanged and feedback provided as part of consumer engagement when we are considering whether the structure of a tariff is reasonably capable of being understood by retail customers, and of being directly or indirectly incorporated by retailers or Small Resource Aggregators in contract terms offered to those customers.[12]

Throughout this paper we have asked questions about AusNet's engagement on, and consumer and stakeholder support for, particular aspects of its proposal. At an overall level, we would value consumer and stakeholder perspectives on the questions below.

Questions on consumer engagement

3) How satisfied are you that AusNet sincerely partnered with consumers and equipped them to effectively engage in the development of its proposal?
4) How satisfied are you with the scope of issues on which consumers were engaged, and the level of detail at which AusNet engaged?
5) How satisfied are you with the variety of avenues AusNet used to engage with consumers?
6) How satisfied are you with the evidence AusNet's proposal provides of consumer preferences identified through its various engagement channels and that those preferences have been reflected in its proposal?
7) How well do you feel AusNet has responded to consumer and stakeholder feedback on its proposal, including but not limited to feedback on its draft proposal?
8) How would your views on AusNet's proposal change if its estimated network tariff and electricity bill impacts did not eventuate? For example:

10 NER, cll. 6.5.6(c), 6.5.7(c)(1).

11 NER, cl. 6.8.2(c1)(2).

12 NER, cl. 6.18.5(i).

- If tariff or bill impacts were potentially higher, are there areas in which you would be willing to accept a different outcome or prefer AusNet to spend less in order to avoid this?
- If tariff or bill impacts were potentially lower, are there areas in which you would prefer AusNet to deliver/spend more, or would you prefer the same outcomes at a lower cost or price?

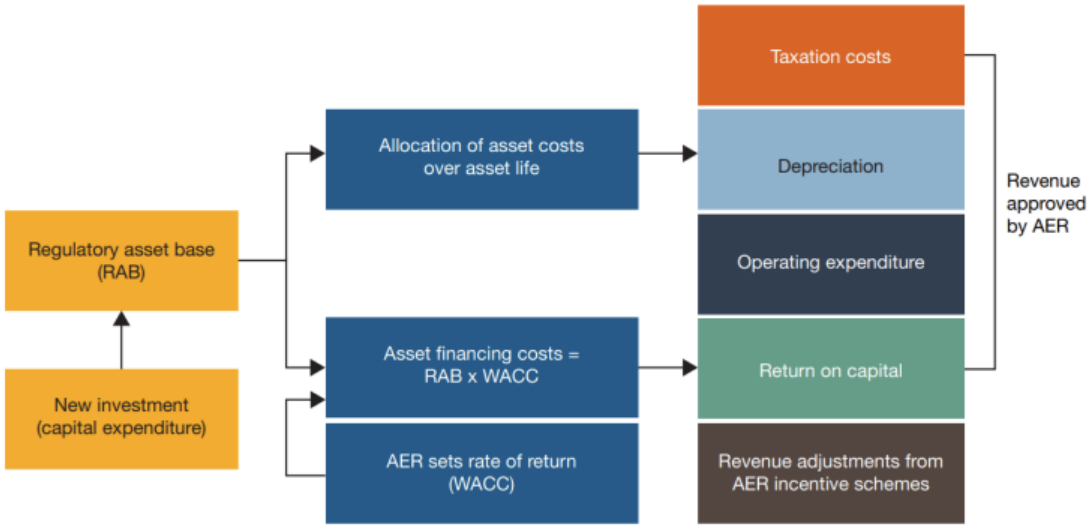
3 Key elements of the revenue proposal

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

The revenue AusNet has proposed reflects its forecast of the prudent and efficient cost of providing distribution network services in its network area over the 2026–31 period. Its revenue proposal, and our assessment under the National Electricity Law and Rules (NEL, NER), are based on a 'building block' approach which looks at five cost components (see Figure 3-1):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance, and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes and allowances, such as the Efficiency Benefit Sharing Scheme (EBSS), Capital Expenditure Sharing Scheme (CESS) and Demand Management Innovation Allowance Mechanism (DMIAM)
- estimated cost of corporate income tax.

Figure 3-1 The building block approach to forecasting revenue



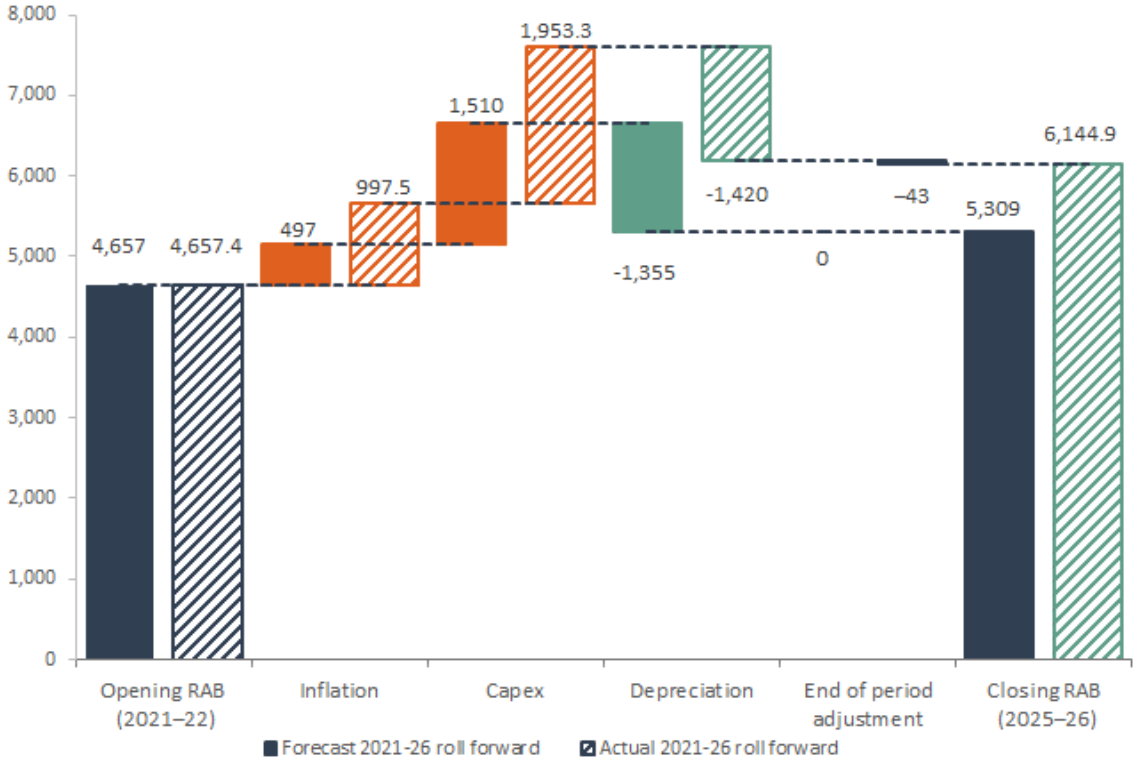
Source: AER.

3.1 Regulatory asset base

The RAB is the value of assets used by AusNet to provide distribution network services. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

The opening RAB at the start of the 2026–31 period depends on the value of existing assets, and on actual capex, actual inflation outcomes and depreciation in the past. In nominal terms, AusNet has reported a $1,487.5 million (31.9%) increase ($ nominal) in its RAB over the 2021–26 period. AusNet's proposed opening RAB as at 1 July 2026 is $835.7 million (15.7%) higher than the forecast value at the time of the 2021–26 determination.[13] As shown in Figure 3-2, the key drivers of this were higher than forecast capex in the 2021–26 period, and actual inflation outcomes.

Figure 3-2 Key drivers of changes in the RAB over the 2021–26 period – Proposal compared to AER's 2021–26 determination ($ million, nominal)



Source: AER analysis.

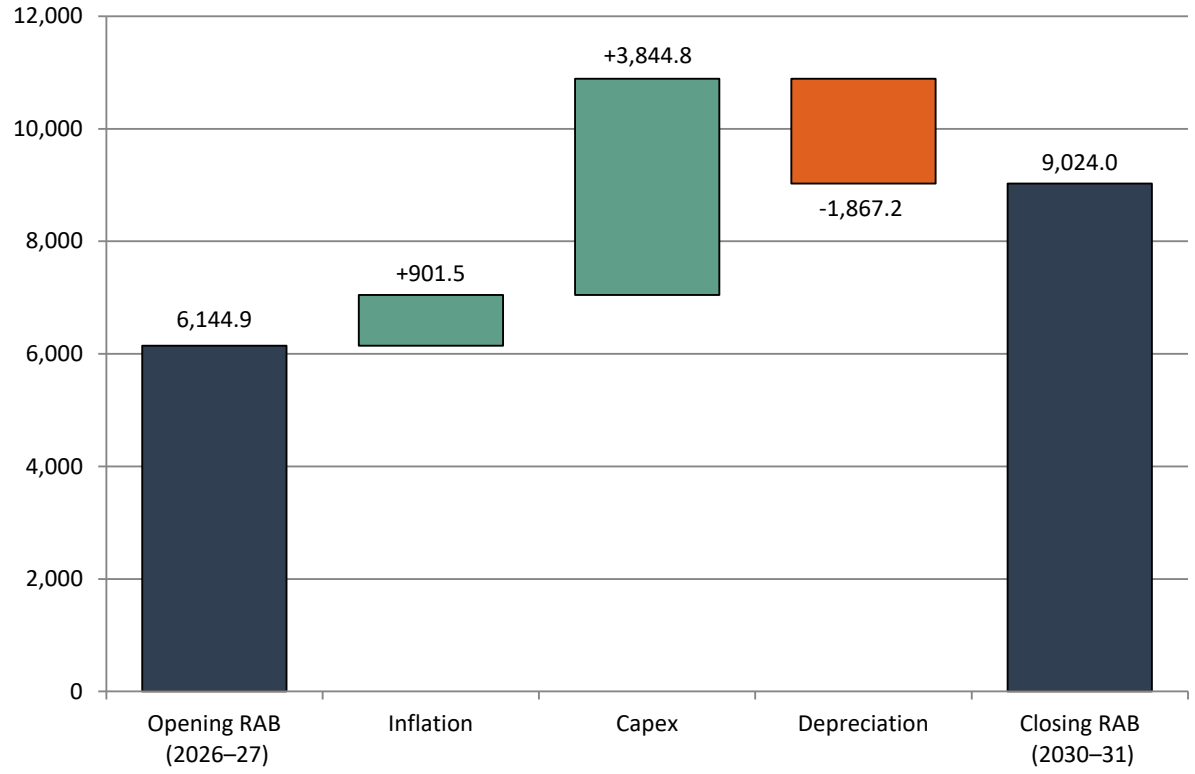
The RAB when projected to the end of the period increases due to both forecast new capex and the inflation indexation adjustment. Depreciation, on the other hand, reduces the RAB.

[13] $6,145 million compared to $5,309 million.

The depreciation amount depends on the size of the opening RAB, the forecast net capex and depreciation schedules applied to the assets. Inflation, regulatory depreciation and capex are discussed in sections 3.2, 3.3 and 3.4 respectively.

Over the 2026–31 period, AusNet's proposal projects a $2,879.1 million (46.9%) ($ nominal) increase in its RAB driven by a significant increase in capex and, to a lesser extent, inflation as illustrated in Figure 3-3.

Figure 3-3 Key drivers of changes in the RAB over the 2026–31 period ($ million, nominal)



Source: AER analysis.

3.2 Rate of return on capital and inflation

The AER's 2022 Rate of Return Instrument (2022 RORI) sets out the approach we will use to estimate the return on debt, the return on equity and the overall rate of return.[14]

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

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

[14] AER - Rate of Return Instrument (Version 1.2) – March 2024

AusNet's proposal includes a higher estimate of the rate of return of 6.04% for the first year of the 2026–31 period, compared to 4.83% in our decision for the first year of the 2021–26 period.

AusNet's proposal also includes a higher expected inflation estimate for the 2026–31 period (2.50%) than the estimate applied in our 2021–26 final decision (2.00%).

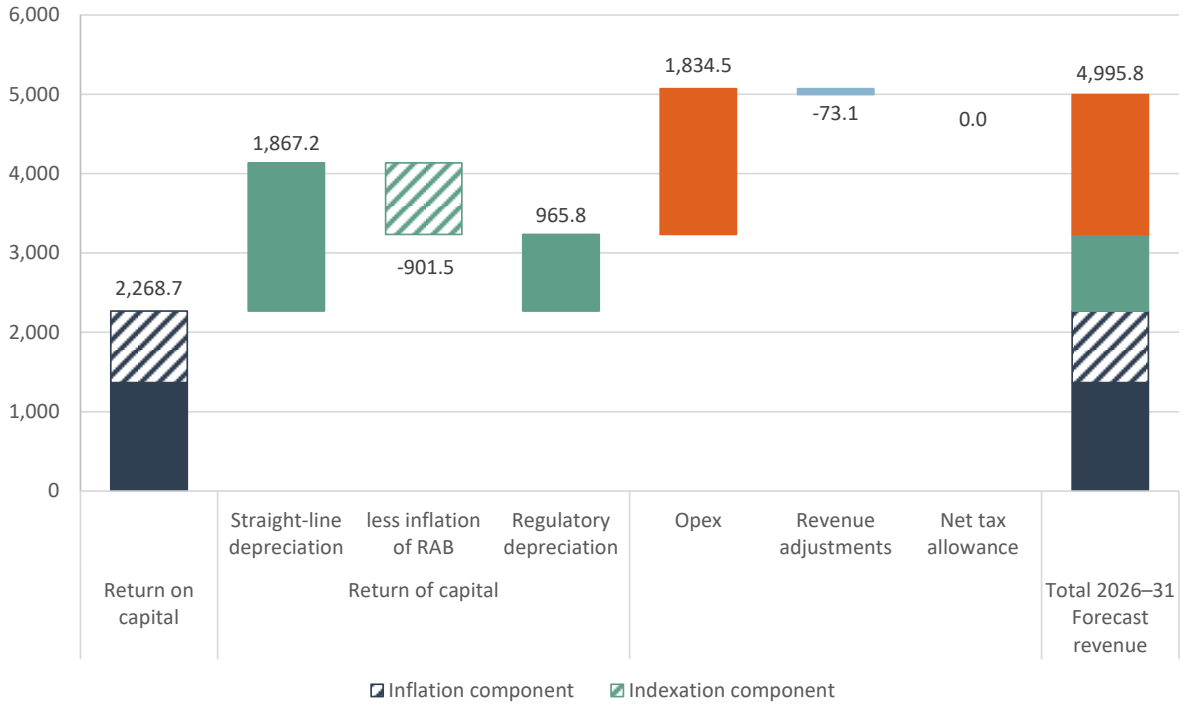
The estimate of the rate of return and expected inflation are significant contributors to the increases in revenue AusNet has proposed relative to the current period.

At this stage, these values are placeholders only. It is important that they are updated throughout the determination process—in our draft decision, in the business's revised proposal and again in our final decision—for the latest market data. By setting a rate of return that reflects current financial market conditions, our determination will enable AusNet to attract the capital it needs to provide the services its consumers want.

Moreover, the return investors receive on their assets should reflect the risks of their investment, including the prospect of inflation eroding their purchasing power. In Figure 3-4, we show how the estimate of expected inflation impacts forecast building block revenue:

- The return on capital building block applies a nominal rate of return to the RAB. That nominal rate of return includes expected inflation. Higher expected inflation increases the return on capital and adds to the impact higher forecast capex is having on this building block.
- The return of capital building block removes expected inflation indexation of the RAB from forecast depreciation. This avoids compensation arising from the effects of inflation being double-counted by including it in the return on capital building block and also as a capital gain (through the indexation of the RAB). Higher expected inflation reduces the regulatory depreciation allowance.
- Other building blocks, such as opex and revenue adjustments, include an inflation component, as these costs are forecast in real dollar terms and then escalated to nominal dollars using expected inflation to determine the required nominal revenue. Higher expected inflation increases opex and revenue adjustments.

Figure 3-4 Inflation in AusNet's revenue building blocks ($ million, nominal)



Source: AER analysis.

3.3 Regulatory depreciation (return of capital)

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

AusNet has proposed regulatory depreciation of $894.5 million ($2025–26) for the 2026–31 period, which is $76.4 million (7.9%) lower than the 2021–26 period. The lower regulatory depreciation is primarily driven by higher expected inflation applied on a higher forecast RAB, which increases the indexation of the RAB deducted from straight line depreciation. This is partially offset by an increase to straight-line depreciation from a significant uplift in capex for the 2026–31 period.

AusNet used our standard regulatory models[15] and proposed to continue applying the year-by-year tracking approach in determining its forecast straight-line depreciation of existing assets.

[15] We amended our standard RAB roll forward model (RFM) to reflect the half-year extension period of 1 January 2021 to 30 June 2021.

Accelerated depreciation

AusNet has not proposed any new accelerated depreciation in the 2026–31 period. However, it has continued the accelerated depreciation for the asset class "Secondary Systems (pre 2016)", which is consistent with the decision made in our determination for the current, 2021-26 period to spread the accelerated depreciation across both 2021–26 and 2026–31.[16] AusNet has proposed to treat the remaining $49.9 million ($2025–26) for this asset class differently than it did in the 2021–26 period, by depreciating the remaining asset value evenly across the 2026–31 period rather than following the declining depreciation approach set out in the 2021–26 decision. We consider this simplifies the treatment and makes the depreciation consistent with our depreciation tracking module.

Asset classes

AusNet has proposed five new asset classes it considers appropriately categorise and depreciate assets according to their specific characteristics and economic lives:[17]

- *Critical spares – network assets:* AusNet proposed this new asset class as it currently does not include these assets in its RAB and therefore does not earn a regulated rate of return on them. AusNet submits that its proposed approach would be consistent with how critical assets are treated for its transmission business and that since this asset class reflects assets that are non-depreciable until they are put into service, there is no standard asset life assigned. Given there is an existing inventory of critical assets, AusNet has also proposed an end of period adjustment to establish an opening RAB asset value for this asset class of $7.61 million (nominal) with no remaining asset life.
- *Non-network solutions:* AusNet proposed this new asset class for assets relating to improving network resilience, reliability and emergency response. AusNet has proposed a standard asset life of 15 years for the proposed assets for mobile generation (including diesel generators, batteries, portable stations) and energy storage for providing network support, improving energy efficiency and managing peak demand. While there are some existing assets that would fit into this asset class, AusNet stated this amount is negligible and therefore proposed an opening RAB asset value of zero.
- *Heavy vehicles and plant:* AusNet proposed a new asset class, separate from the existing asset class for vehicles and plant. It proposed a longer standard asset life of 15 years (compared to 5 years for existing assets), which it submits is consistent with industry benchmarks. AusNet submits that an opening asset value of zero is appropriate because AusNet does not currently own many heavy commercial vehicles or plant and so the asset value would be minimal.[18]
- *Non-network leasehold building – short term* and *non-network leasehold building – long term*: The proposed standard asset lives of 5 and 20 years for the short term and long

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16 AER, *Final decision – AusNet Services 2021–26 – Attachment 4 – Regulatory depreciation*, April 2021, pp. 7–8.

17 AusNet, *Electricity Distribution Price Review 2026–31 Regulatory Proposal*, January 2025, p. 284-287.

18 Prior to the 2026–31 period these assets were allocated to the 'non-network general assets – Other' asset class. AusNet notes that it is changing its approach to ownership and operation of non-network assets in August 2025 compared to historical practice.

term asset classes, respectively, are intended to more accurately reflect the economic lives of AusNet's lease-related assets. AusNet has not proposed an opening RAB asset value for these asset classes.

We will assess AusNet's forecast expenditure to ensure that the various proposed asset classes and asset lives are appropriate for the nature of the capex.

Questions on regulatory depreciation

9) What are your views regarding the five new asset classes, the reasons for adding them, and their proposed standard asset lives?

10) What are your views regarding the proposed opening RAB value for the "Critical spares – network assets" asset class?

3.4 Capital expenditure

Capital expenditure (capex) refers to the capital costs and expenditure incurred to provide network services. Capex mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Capex is added to the RAB, which is used to determine the return on capital and return of capital (regulatory depreciation) building block allowances.

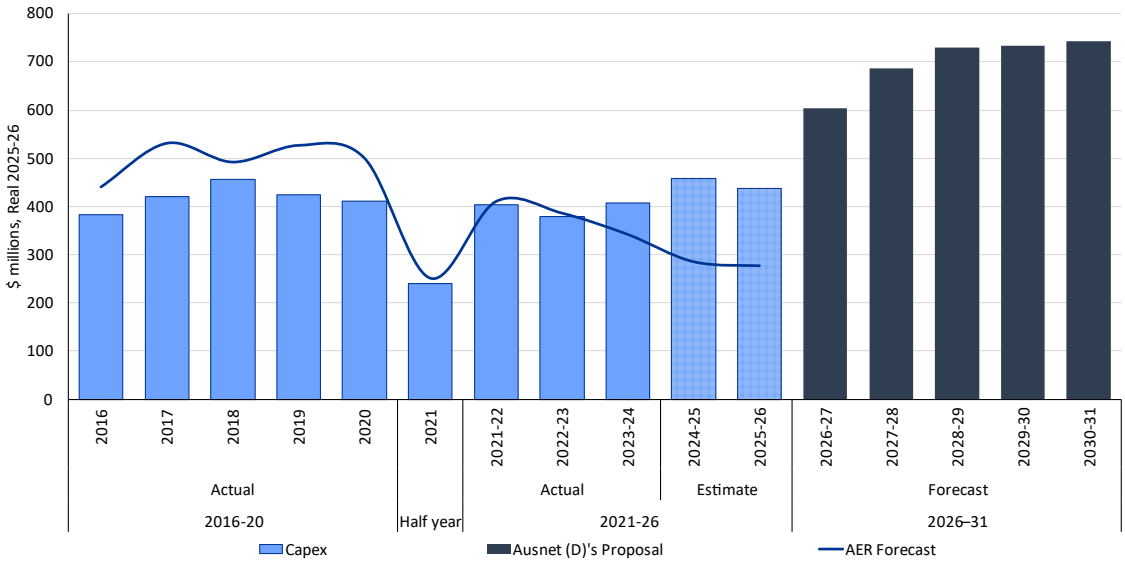
AusNet has proposed total forecast capex of $3,496.0 million ($2025–26) for the 2026–31 period. As shown in Figure 3-5:

- This is $1,826.2 million (109.4%) higher than the total forecast capex we approved (and used to set revenues) in our decision for the current, 2021–26 period.
- It is $1,460.0 million (71.7%) higher than AusNet's actual and estimated capex in the 2021–26 period.

We have assessed that an ex-post review (a review of past expenditure) is not required for AusNet as part of this determination, because it did not overspend in the ex-post review period.[19] We will assess whether an ex-post review is required in the next determination noting the elevated levels of expenditure proposed.

[19] The ex post review period includes years for which actual, and not just estimated, capex is available for review. It covers only the first three years of the 2021-26 period, and the final two years of the previous period.

Figure 3-5 Trend in AusNet's forecast and actual capex over time ($million, 2025–26)



Source: AER Analysis
Note: Net; estimates only for 2024–25 and 2025–26.

AusNet is required to propose the total forecast capex it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, and to maintain the safety, reliability, quality, and security of its network and to contribute to achieving the targets for reducing Australia's greenhouse gas emissions (the capex objectives).[20] We must decide whether or not we are satisfied that these forecasts reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex criteria).[21] Where a business's capex forecast is a material step up, we will also have regard to the deliverability of a business's total capex program in assessing the reasonableness of the capex forecast. We typically expect businesses to provide evidence of how they would address resourcing constraints, immediate skill gaps, supply chain limitations and other deliverability risks.

When considering whether the forecast reasonably reflects the expenditure criteria, we must have regard to the capex factors.[22] We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of supply, and contribute to achieving targets for reducing Australia's greenhouse gas emissions, for the benefit of consumers in the long term (as required under the NEO).[23] Our *Capital expenditure assessment outline for electricity distribution determinations* explains our and distributors' obligations under the NEL and NER in more detail.[24] It also describes the techniques we use to assess distributors' capex proposals against the capex criteria and

20 NER, cl. 6.5.7(a).
21 NER, cl. 6.5.7(c).
22 NER, cl. 6.5.7(e).
23 NEL, ss. 7, 16(1)(a).
24 AER, Capital expenditure assessment outline for electricity distribution determinations, February 2020.

objectives. Where relevant we also assess capex associated with emissions reduction proposals taking into account our *Guidance on amended National Electricity Objectives.*[25]

The Handbook sets our expectations for capex forecasts. In summary:

- the business should demonstrate that the proposed expenditure is not significantly above current period spending. All components of the total capex forecast should be well-justified, consistent with past spending for recurrent components, and, for repex, not materially above our repex model
- the business should show evidence of prudent and efficient decision-making on key projects/programs
- the business should provide evidence that the proposal aligns with industry risk management standards
- the business should provide evidence of genuine consumer engagement.

AusNet has proposed increases above current period spending across almost all capex categories. Based on our preliminary assessment, AusNet's supporting business cases are complex in nature and cover a range of drivers (such as a reliability, emissions reduction, safety and customer driven expenditure) that will require a bottom-up assessment in order to satisfy ourselves that its forecast is guided by prudent and efficient decision making and risk management standards.

3.4.1 Key drivers of AusNet's capex proposal

Table 3-1 sets out the composition of AusNet's capex proposal for 2026–31 and compares it to its forecast and actual expenditure in the current, 2021–26 period.

There are material increases in all capex categories besides capitalised overheads and other non-network expenditure. Replacement and augmentation expenditure provide the most significant contribution to the uplift, accounting for over two-thirds of the overall increase. Further we have identified there is crossover between repex, augex and information and communications technology (ICT) for some programs such as resilience, safety and innovation.

We discuss AusNet's proposals for each capex category in the sections below, including its forecasting approach, the key drivers of proposed expenditure identified in its proposal, and likely areas of focus for our assessment.

Table 3-1 AusNet's 2026–31 capex proposal compared to 2021–26 ($million 2025–26)

Driver	2021–26 actual/ estimate	2026–31 proposal	2026–31 proposal vs 2021–26 actual /estimated (%)	Proportion of 2026–31 gross capex (%)
Replacement	780.0	1,316.9	68.8%	34.5%
Augmentation	364.0	909.0	149.7%	23.8%

[25] AER, *Guidance on amended National Electricity Objectives, September 2023.*

Driver	2021–26 actual/ estimate	2026–31 proposal	2026–31 proposal vs 2021–26 actual /estimated (%)	Proportion of 2026–31 gross capex (%)
Connections	423.2	576.5	36.2%	15.1%
Fleet	8.6	144.2	1576.7%	3.8%
Property	56.0	173.7	210.2%	4.6%
ICT	318.9	418.8	31.3%	11.0%
CER integration	47.5	48.7	2.5%	1.3%
Other non-network	12.6	15.4	22.2%	0.4%
Capitalised overheads	223.5	209.1	-6.4%	5.5%
Total gross capex	**2,234.4**	**3,812.4**	**70.6%**	**100.0%**
Less capital contributions	188.4	277.3	47.2%	
Less asset disposals	10.0	39.2	292.0%	
Net capex	**2,036.0**	**3,496.0**	**71.7%**	

Source: AER analysis of AusNet's 2026–31 proposal capex model.

3.4.1.1 Replacement expenditure (repex)

AusNet has proposed $1,316.9 million in repex, which represents 34.5% of total gross capex, and an increase of 68.8% in comparison to the current regulatory period. This expenditure aims to address safety, reliability and resilience across the network.

AusNet has broken down its repex proposal into four programs:

- Age and Condition-based – this program consists of $863.2 million of repex on poles, conductors, switchgear, substations, cables and cross arms. AusNet submits that the increase in this expenditure is partly driven by higher unit rates that reflect market-driven cost pressures and is necessary to address a higher risk of asset condition deterioration due to an aging network. A combination of modelled (risk-based) and unmodelled (inspection-based) approaches have been used to determine the need for asset replacement.
- Safety and environmental – this program consists of $126.7 million of repex and $22.3 million of augex. The program includes expenditure that aims to mitigate bushfire risk and further reduce potential fire-starting incidents. Further, AusNet has proposed to upgrade oil management systems to reduce the risk of harmful oil pollution.
- Resilience – this program consists of $217.1 million of repex and $42.6 million of augex. The program includes expenditure for high risk poles and overhead cables.

AusNet states that this expenditure is driven by an increase in the frequency of storm events alongside heightened regulatory focus from the Victorian Government. This is discussed further in section 3.4.1.5.

- Operational technology – this program includes $40.3 million of repex. The program involves expenditure for components of AusNet's Advanced Distribution Management System (ADMS) that have reached end of life. There is an adjacent ICT program that is listed in section 3.4.1.3.

There is further repex associated with a compliance program, which is discussed further in section 3.4.1.1.

3.4.1.2 Augmentation expenditure (augex)

AusNet has proposed $909.0 million or 23.8% of gross capex in augmentation expenditure. This is an increase of 34.5% in comparison to the current regulatory period. AusNet states that this forecast is driven by a significant increase in demand driven augmentation.

AusNet's augex proposal consists of the following five programs:

- Demand driven augmentation – this program accounts for $400.4 million of augex. AusNet suggests that rising peak demand is driving a need for network upgrades to maintain a reliable supply of electricity. AusNet forecasts maximum demand growth of 18% in winter and 13% in summer over the 2026–31 regulatory period. It also projects that its average asset utilisation will increase from 60% to 75% over the next regulatory period. AusNet's demand forecasting model was initially developed by Monash University, and mostly relies on inputs AEMO used for its Integrated System Plan (ISP) and Electricity Statement of Opportunities (ESOO), as well as the Victorian Government's 2023 'Victoria in Future' planning data. However, it has not fully incorporated the 2024 ESOO inputs due to timing and materiality considerations.
- Large renewables enablement – this proposed program contains $180.4 million of augex. The program aims to increase capacity in the sub-transmission network to enable more renewable generation and storage. AusNet states that this will provide benefit to consumers through emissions reductions and lower wholesale prices.
- Reliability – this program includes $137.4 million of forecast augex and is composed of three programs: Regional Reliability Allowance (RRA), BN11 feeder and the top 10 worst served feeders. The RRA is the largest component of this sub-category at $88.9 million. AusNet has proposed that this expenditure will address regional reliability concerns, and specific projects will be prioritised within the regulatory period with its Customer Consultative Committee. AusNet also proposed that the allowance would be provided on a 'use it or lose it' basis.
- Rapid earth fault current limiter (REFCL) compliance – this program consists of $76.5 million of augex. AusNet suggests that network growth due to increasing demand will cause some current REFCL assets to be non-compliant with jurisdictional regulations. AusNet submits that the expenditure is needed to augment the current REFCL in some substations to ensure ongoing compliance.
- Compliance – this program consists of $56.0 million of augex and a further $36.8 million shared between repex, ICT and CER. This program's aim is to manage voltage and assist with Under Frequency Load Shedding (UFLS).

3.4.1.3 ICT

AusNet has proposed $418.8 million or 11.0% of gross capex for ICT expenditure. This represents an increase of 31.4% in comparison to the current regulatory period. This is further divided into recurrent and non-recurrent expenditure that account for $117.8 million and $301.0 million respectively. AusNet states that the increase in this period is driven by customer expectations, CER penetration and rising external threats such as storms or cyber. The proposed expenditure is shared across the following 11 programs:

- Asset management ($79.3 million)
- Technology Asset Management applications ($67.3 million)
- Customer engagement platform ($45.3 million)
- Network model management ($42.7 million)
- Distribution System Operator ($40.8 million)
- Technology Asset Management infrastructure ($32.7 million)
- Advanced Distribution Management System ($27.9 million)
- Cyber security ($27.5 million)
- Market systems ($20.2 million)
- Field enablement ($18.8 million)
- Metering systems ($5.1 million)

3.4.1.4 Connections

AusNet has proposed $576.5 million in gross connections expenditure which accounts for 15.1% of the total gross capex forecast. This is offset by $277.3 million in customer contributions. In comparison to the current regulatory period this is a 36.2% increase in expenditure and a 47.2% increase in contributions. AusNet forecasts net connections expenditure of $299.2 million.

The forecast increase is driven by customer growth, electrification and new customer types such as data centres and electric vehicle (EV) charging infrastructure. This expenditure is based on a forecast of an additional 79,000 residential and 11,700 business connections across the next period.

3.4.1.5 Resilience

As discussed above, AusNet's proposed resilience expenditure of $259.7 million is shared between augex and repex. AusNet submits that this is being driven by increases in damaging storms, notably the extreme weather events of the past five years. As a result, the Victorian Government has placed more significance on the role networks must play to manage the risks of these extreme events. AusNet's proposed solutions in this program have a focus on limiting wind-based damage from storms.

Most of this program is forecast to be spent on network hardening solutions. This proposal consists of undergrounding, covering conductors, hardening poles and installing reclosers. Alongside this network investment, AusNet has proposed spending on backup power supply at 30 community hubs and installing 25 stand-alone power systems. The remaining

expenditure includes mobile generators and additional emergency response vehicles. It should also be noted that the ADMS program (categorised as ICT) is expected to provide resilience benefits. The proposed resilience capex is also accompanied with an opex step change, which is discussed in section 3.5

AusNet is also cognisant of the recommendations from the Network Outage Review into the February 2024 storms and the potential government response to the review.[26] It will consider whether any recommendations are implemented by the Victorian Government and ensure there is no overlap between its proposal and investment required under these potential new obligations.

We will review AusNet's proposal having regard to our *Value of Network Resilience* (VNR) and guidance note on network resilience (discussed in section 3.4.1.6, below).[27]

There are also regulatory changes already on foot that could impact resilience proposals in particular:

- the AEMC's 2025 draft determination to amend the NER to explicitly include the consideration of network resilience as an expenditure factor. The AEMC proposes the rule change would take effect in revised proposals from Victorian distributors later this year. [28]
- changes to the *Electricity Safety Act 1998* (Vic) to provide a new obligation on distributors to prepare and submit Network Resilience Plans for acceptance every regulatory control period. Energy Safe Victoria will regulate and enforce compliance with those plans.
- the Victorian Government's support for some of the recommendations in the August 2024 Network Outage Review, including distributors annually reporting to the Minister for Energy and Resources about their emergency risk management practices and restoration times, such as early deployment of vegetation crews.

3.4.1.6 Value of Customer Reliability

AusNet has proposed to use alternative values of customer reliability (VCRs) to those we have published in accordance with our methodology. Its VCR estimates have been developed based on a hybrid approach, which combines our 2023 VCRs for business customers and its own values titled 'Quantifying Customer Values' (QCV) to reflect the residential customer value. AusNet developed its alternative estimates by undertaking a willingness-to-pay survey of 3,178 residential and 349 business customers. AusNet states that its alternative estimates better reflect its customer base because they are both more recent and specific to AusNet compared to our 2023 VCR.

We recently completed a review of the VCR methodology and used it to update the VCRs, published on 18 December 2024.[29] This process ensured that the latest values reflect the

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26 Department of Energy, Environment and Climate Action, *Network Outage Review*, January 2025

27 AER, *Value of Network Resilience 2024*, 30 September 2024; AER, *Note on the key issues of network resilience*, April 2022.

28 AEMC, *Including distribution network resilience in the national electricity rules, Draft rule determination*, 13 February 2025.

29 AER, Values of customer reliability, 18 December 2024

VCR objective and be fit-for-purpose for any current or potential use we consider relevant.[30] We will need to carefully consider the rationale for any proposed deviations from our VCR and evidence provided by AusNet in favour of an alternative approach in this context. We note that AusNet stated they were unable to use the 2024 VCR due to timing issues and will consider updating this for the revised proposal.

AusNet has adopted our approach to estimating values of network resilience (VNR) in the development of its resilience program, by applying the VNR multiples to our 2023 VCRs. It notes that will consider whether to update the VNR values underpinning its resilience proposal in its revised regulatory proposal. We will also review AusNet's application of VNRs to its proposed resilience program.

Questions on capex

11) Are there any particular areas of AusNet's capex proposal that you would expect further engagement on?

12) Do you consider that this proposal reflects consumers' preferences?

13) Do you consider that the areas we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

14) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed capex?

3.5 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. It includes labour costs and other non-capital costs that a prudent service provider is likely to require for the efficient operation of its network. Unlike capex, the total forecast opex approved for AusNet's 2026-31 period will be recovered within that one period. This means opex has a more immediate impact on revenue than capex.

AusNet's proposed total forecast opex of $1,700.3 million ($2025–26)[31], including debt raising costs, for the 2026–31 period is:[32]

- $99.4 million (6.2%) higher than the total forecast opex we approved (and used to set revenues) in our decision for the current, 2021–26 period.
- $215.3 million (14.5%) higher than AusNet's actual/estimated opex in the 2021–26 period.

AusNet's forecast actual and estimated expenditure for the 2021–26 regulatory control period is also $115.9 million or 7.2% lower than the opex forecast we approved for this period.

Figure 3-6 shows the trend in opex over time and the AER's approved opex forecast.

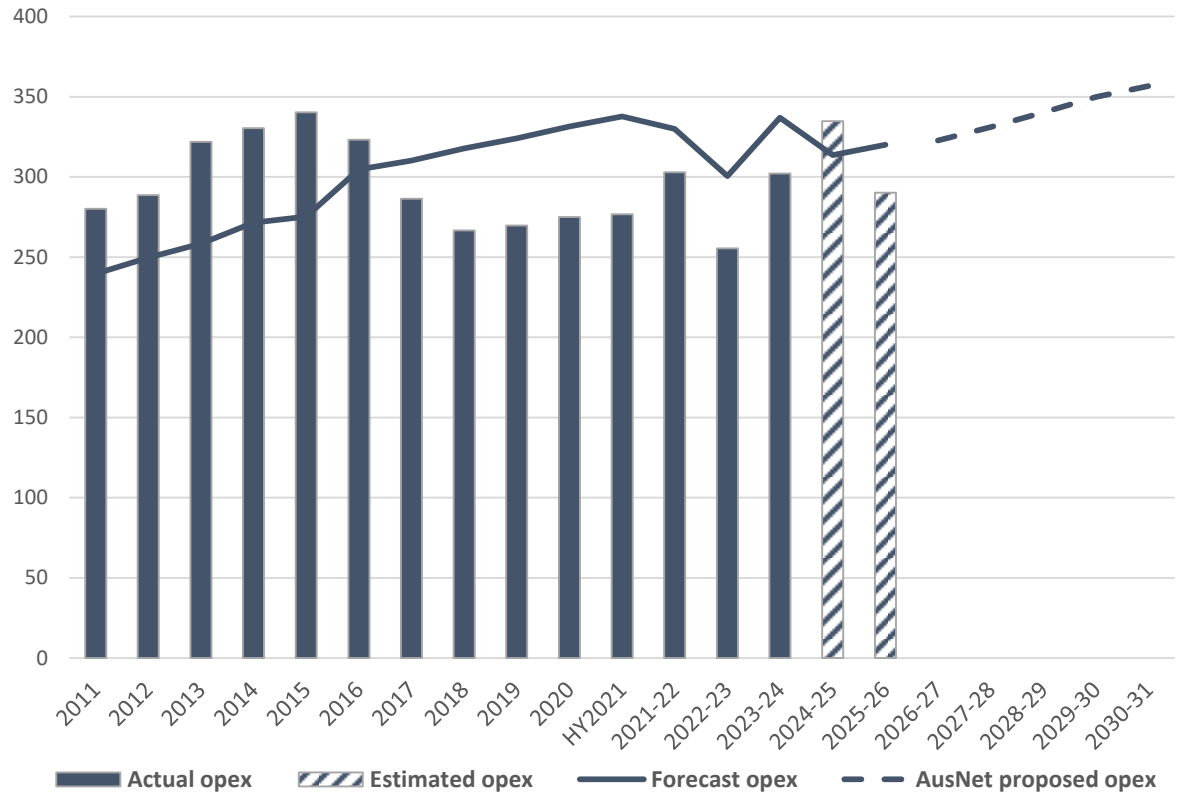
30 NER, rule 8.12(a)

31 All dollars in Section 3 are in $2025-26 terms unless otherwise stated.

32 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 228.

AusNet's actual opex decreased significantly from 2014–15 and over the first three years of the 2016-20 regulatory control period to a level that has been consistently below the AER's approved opex forecast. Since 2019, AusNet's actual opex has trended upwards, and over the 2021-26 regulatory period increasingly fluctuated, with 2021–22, 2023–24 and 2024–25 actual and estimated expenditures being impacted by significant storm events.[33] AusNet's expenditure in its proposed base year 2022–23 is estimated to be $41.0 million or 13.8% lower than its average annual expenditure over the period 2011–26.

Figure 3-6 Comparison of AusNet's forecast and actual opex over time ($m, 2025–26)



Source: AusNet, *Economic benchmarking – Regulatory Information Notice response 2010–24*; AER, *Final decision PTRM 2010–2015*; AER, *Final decision PTRM 2015–20*; AER, *Final decision 2021–26 PTRM and Opex model*; AusNet, *ASD – AusNet EDPR 2026–31 – Opex model*, January 2025; AER analysis.
Note: Includes debt raising costs

The Better Resets Handbook sets our expectations for opex forecasts, including that:

- the business will use our base-trend-step approach, including our standard assumptions
- the business will use a base year for which audited actual opex is available and that a network business can demonstrate that it is not materially inefficient
- step changes will be small in number and well-justified
- category specific costs will be small in number and well-justified
- there should be evidence of genuine consumer engagement.

[33] AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 229

Based on our initial assessment, AusNet's proposal adopts our base-trend-step approach. AusNet used actual audited 2022–23 opex as the base year, the second year of the current regulatory control period. AusNet states, it was appropriate to use 2022–23 as the base year due to the alternative base years of 2023–24 and 2024–25 being impacted by significant abnormal events, such as the storms experienced in February 2024 and September 2024.[34] AusNet has provided analysis to demonstrate its base opex is not materially inefficient, with reference to the latest available AER annual benchmarking report (2024).[35]

AusNet's consumer engagement was observed to have engaged sincerely with consumers and largely received positive feedback. AusNet presented opex forecasts to consumers, with CCP32 observing that AusNet's draft proposal consultation focussed on what the combined effects of capex and opex spend will be on prices in the 2026–31 period. AusNet's engagement also included discussions on the opex elements of base opex, base year adjustments, trend, step changes, innovation and Guaranteed Service Level (GSL) payments.[36]

However, AusNet has proposed 11 step changes totalling $131.7 million, representing 8.4% of total forecast opex.[37] Nine of the step changes are for positive amounts that increase AusNet's total forecast opex $136.2 million, while two are for negative amounts reducing the total forecast opex by $4.6 million. We recognise that AusNet has sought to justify the proposed step change increases in accordance with the framework set out in the Better Resets Handbook, but we consider what is proposed is not consistent with our expectation of few or no proposed step changes. Given the materiality of the step change increases, individually and collectively, we propose to prioritise assessment of the nine positive step changes. Our assessment will focus on the prudency and efficiency of the proposed costs increases, individually and collectively. We will holistically consider potential interactions of these step changes with each other, and with any related proposed capex. We will also test that the proposed additional expenditures are not already accounted for in the base year or trend forecast used to escalate base opex, and that AusNet has considered all opex factors and inputs (including the final year increment) in the proposed step change costs.

AusNet has also proposed three category specific forecasts totalling $61.6 million, representing 3.6% of total forecast opex, for GSLs, an Innovation Fund and debt raising costs.[38] We intend to prioritise review of GSL payments and the Innovation Fund. We note AusNet is subject to GSL payments under the Electricity Distribution Code of Practice. However, our review will focus on AusNet's proposed deductions to GSL's for the resulting benefits of its proposed reliability investments program.[39] For the Innovation Fund, our

34 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 229.

35 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 233.

36 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, pp. 230-31.

37 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 239.

38 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, pp. 263-64.

39 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 263.

review will focus on ensuring the proposed projects satisfy our Innovation Fund criteria developed in our recent NSW distribution determinations.[40]

3.5.1 Key drivers of AusNet's opex proposal

AusNet used its actual opex in 2022–23 as the base year for forecasting the 2026–31 period. It stated that it selected 2022–23 because it will provide the most recent audited data that reflects normal operating conditions, without the effect of major storms. AusNet also noted that its most recent benchmarking results confirm the efficiency of its opex.[41]

AusNet then:[42]

- added $17.8 million to reflect adjustments to base opex, for the expensing of capitalised corporate overheads ($20.3 million) and Property fees (–$2.5 million).
- added $97.5 million to reflect the change in opex between the base year (2022–23) and final year (2025–26), using the approach outlined in the *Expenditure Forecast Assessment Guideline*

AusNet then applied a rate of change to its adjusted base year, comprised of:

- forecast output growth, averaging 1.48% per year ($57.4 million)
- forecast price growth, averaging 0.6% per year ($24.8 million),
- forecast productivity growth of 0.5% per year (–$21.6 million).

The largest single contributor to AusNet's proposed uplift in opex, and a key area of focus in our assessment of its proposal, is the addition of 9 positive step changes totalling $136.2 million (8.0% of its total forecast opex):

- $39.9 million for Digital (inc. SaaS, licenses etc.)
- $21.6 million for Emergency Backstop Mechanism
- $15.7 million for Customer relationship management and broad communications
- $15.0 million for Resilience (Hazard Tree Program)
- $10.5 million for Insurance
- $9.2 million for Emergency Preparedness and Response
- $8.5 million for Flexible Services and non-network solutions
- $8.0 million for ESV direction to conduct more frequent pole inspections
- $7.8 million for Early Fault Detection

AusNet also proposed to deduct 2 negative step changes, reducing total forecast opex by $4.6 million:

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40 AER, *Final decision – Attachment 5 – Capital expenditure - Ausgrid distribution determination 2024–29*, 30 April 2024, p. 34

41 AER, *2024 – Annual Benchmarking Report – Electricity distribution network service providers, November 2024.*

42 AusNet, *Electricity Distribution Price Review 2026-31 – Opex model*, January 2025.

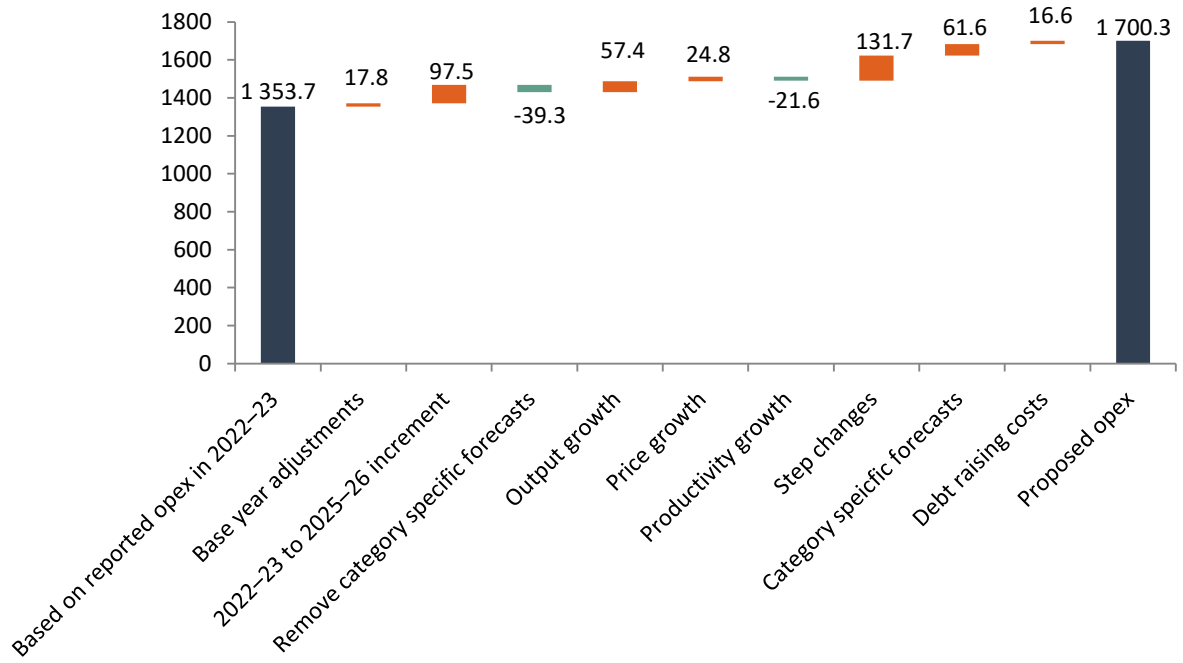
- $3.9 million for Digital Efficiencies
- $0.7 million for Fleet electrification

AusNet has also added 1 placeholder step change totalling $0 million for AEMO fees driven by a new regulatory obligation.[43] AusNet states that it is likely that AEMO introduces levies on distribution businesses for Participant Fees. In this instance AusNet will include this step change in its revised proposal.

AusNet's proposal also includes a number of category specific forecasts totalling $78.3 million (4.6% of total forecast opex), for debt raising costs ($16.6 million), Guaranteed Service Level payments ($54.0 million) and its proposed Innovation Fund ($7.7 million).

Figure 3-7 shows how the components above contribute to AusNet's proposed opex forecast.

Figure 3-7 Breakdown of AusNet's opex forecast ($m, 2025–26)



Source: AusNet, *ASD – AusNet EDPR 2026-31 – Opex model*, January 2025; AER analysis

Questions on opex

15) Are there any particular areas of AusNet's opex proposal that you would expect further engagement on?

16) Do you consider that the proposal reflects consumers' preferences?

17) Do you consider that the areas we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

43 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 262

18) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed opex?

3.6 Revenue adjustments under AER incentive schemes

Our calculation of total revenue for 2026–31 will include adjustments for the expenditure incentive schemes that were applied to AusNet as part of our determination for the current, 2021-26 period.

As set out in AusNet's proposal, these would include:

- A $40.2 million ($2025-26) revenue increase (positive carryover) under the EBSS, to provide a fair sharing of efficiency gains derived from the application of the EBSS in the 2021-26 regulatory control period.
- A $117.2 million ($2025-26) revenue reduction (negative carryover) under the CESS, to provide a fair sharing of capex spent in excess of our approved forecast for 2021-26 between AusNet and its customers.

AusNet has also proposed two exclusions from the calculation of CESS outcomes for the last two years of the 2021–26 regulatory period. These exclusions are for innovation ($7.7 million) and the costs associated with transitioning to Zinfra as AusNet's operations and maintenance service provider ($13.0 million). However, the application of the CESS to the 2021–26 regulatory control period did not allow for exclusions when it was set during the last determination.

AusNet's proposed application of the CESS and EBSS to its expenditure in the new, 2026-31 period is discussed in section 4.

AusNet's proposed revenue for 2026-31 also includes an allowance of $4.75 million ($2025-26) under the Demand Management Innovation Allowance Mechanism (DMIAM), to fund research and development in innovative demand management projects that have the potential to reduce long-term network costs.[44] Consistent with the design of the DMIAM, this allowance is included in AusNet's revenue proposal as a positive revenue adjustment. 1.

3.7 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for the 2026–31 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

AusNet has calculated the tax payable is zero and no estimated cost of corporate income tax is included in AusNet's proposed revenue requirement for the 2026–31 period. This is due to immediately deductible expenses and continuing to carry forward of tax losses from the 2021–26 period.[45]

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44 We developed and implemented the DMIAM under cl. 6.6.3A of the NER: AER - Demand management innovation allowance mechanism - 14 December 2017.

45 AusNet, *Electricity Distribution Price Review 2026–31 Regulatory Proposal*, January 2025, p. 299.

AusNet's proposal has:

- carried forward its accumulated tax loss in as at 1 July 2021 of $342.4 million.
- proposed $1,501.4 million ($ 2025–26) of immediately expensed capex, consistent with its current tax policy. The proposed amount reflects the same methodology applied in the 2021–26 determination but updated for 2026–31 forecast capex and overhead rates in 2022–23.
- adopted the diminishing value method for tax depreciation to all forecast capex, except for a limited number of assets which must be depreciated using the straight-line depreciation method under the tax law.

As discussed in section 3.3 AusNet has proposed five new asset classes. AusNet has proposed the standard tax asset lives are equivalent to the standard asset lives.[46] Further, AusNet has proposed the opening tax asset values for the new asset classes to be equivalent to the proposed regulatory asset values set out in section 3.3.

We will assess the appropriateness of the proposed amounts of immediate expensing, capex allocated for straight-line depreciation and standard tax asset lives based on the approach we have taken in recent determinations.

3.8 Uncertainty mechanisms

Our decision on AusNet's proposal will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period. Over the 2026-31 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These include cost pass through events or contingent projects. The triggers set out for these events (either in the NER or in our determination) will, if met, allow AusNet to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment. In limited circumstances AusNet may also apply to reopen our determination for further capex.[47]

Some cost pass through events are defined in the NER. These prescribed events (regulatory change event, service standard event and tax change event) apply to all distributors.[48]

AusNet has also proposed eight nominated pass through events that would apply in addition to the NER prescribed pass through events.[49] Of these, five were approved as part of our determination for the current period (an insurance coverage event; insurer credit risk event; terrorism event; natural disaster event; and retailer insolvency event).

The following events would be new inclusions for the 2026-31 period:

- *Major supply chain disruption event*—AusNet considers that the energy transition could increase pressure on the supply of certain materials, commodities and skilled labour,

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46 AusNet, *Electricity Distribution Price Review 2026–31 Regulatory Proposal*, January 2025, p. 297.

47 NER, cl. 6.6.5.

48 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 326.

49 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal,* January 2025, p. 327.

driving prices higher. AusNet submits that disruptions to the supply chains it relies on can be unforeseeable and can have significant impact on its costs and deliverability of its projects required to deliver distribution services. AusNet's expenditure forecast assumes that these costs will increase at the same rate as CPI.

- *AEMO participant fee event*—AEMO recovers its costs in full from energy market participants in the form of Participant Fees, the structure of which are set every 5 years, with the next period beginning from 1 July 2026. AusNet submits that AEMO has indicated that it will commence consultation on the structure of Participant Fees that will apply for the period 1 July 2026 to 30 June 2031 in early 2025. If costs are assigned to distributors, this timing should allow AusNet to include a reasonable forecast in the form of a step change in AusNet's Revised Revenue Proposal. However, AusNet submits that this upcoming determination will not cover its costs if these fees materially increase over time or if there is a declared NEM project, which results in an additional participant fee being imposed. Accordingly, the pass through mechanism will still be appropriate in addition to any step change incorporated at the revised proposal stage.
- *Electrification event*—AusNet submits that the Victorian Government has released its updated Gas Substitution Roadmap and outlined a clear position to electrify residential homes. However, exactly how and when this will unfold is yet to be determined. AusNet submits that it expects material increases in costs resulting from distributors augmenting their networks or implementing other significant non-network solutions to ensure their networks can enable customers to electrify through safely and reliably meeting the increased demand. It states that these costs could materially exceed those provided for in our revenue determination.

Our draft decision assessment will review the previously AER approved nominated cost pass throughs and assess the three new nominated cost pass throughs, against the cost pass through considerations (as defined in chapter 10 of the NER).

Questions on cost pass through events

19) Do you have any feedback on the new nominated cost pass through events?

4 Incentive schemes to apply in 2026-31

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

Our decision as to which schemes will apply to AusNet in 2026-31, and how each scheme will apply, is made as part of our determination and takes effect from the commencement of the new regulatory control period. This establishes the parameters for rewards and penalties upfront to provide certainty and clear incentives to businesses.

4.1 Capital expenditure sharing scheme (CESS)

The CESS 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.

AusNet has proposed to continue applying the CESS to standard control services in accordance with our current Capital Expenditure Incentive Guideline over the 2026–31 regulatory period.

For the new, 2026–31 period, AusNet has proposed three elements of its forecast capex be excluded from the CESS when calculating carry over amounts for over- and under-spending relative to its approved capex forecasts:

- Innovation expenditure ($2.5 million of the proposed $10.9 million) – AusNet has proposed that this expenditure would be on a use-it or lose-it basis and therefore should not be penalised or rewarded as part of the incentive scheme.
- Regional Reliability Allowance expenditure ($31 million of the proposed $88.9 million) – This allowance is to address reliability challenges that emerge over time. AusNet has proposed that this expenditure would be on a use-it or lose-it basis and therefore should not be penalised or rewarded as part of the incentive scheme.
- Expenditure for new technology connections ($84.8 million of the proposed $576.5 million) – AusNet has proposed that expenditure related to new types of connections (community batteries, grid scale renewable generator hybrids, public EV charging and data centres) be excluded due to the level of uncertainty and difficulty to forecast these connections.

Our current CESS guideline does not allow specific capex categories to be excluded from the application of the CESS.[50]

We are currently undertaking a review of the Capital Expenditure Incentive Guideline to accommodate the AEMC's rule change on managing ISP project uncertainty through

[50] AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, July 2024.

targeted ex post reviews.[51] As part of this review, we are also considering whether to modify the CESS to allow specific capex categories to be excluded from the CESS. We are required to complete this review by 4 September 2025.[52] Any changes to the CESS will be applied in our draft determination for the 2026–31 regulatory control period.

We are interested in seeking stakeholder views on the proposed exclusions from the CESS.

Questions on CESS

20) Do you have any concerns with the application of the CESS for AusNet in the 2026–31 regulatory control period?

21) Do you consider there is need to modify the application of the CESS to allow CESS exclusions on certain capex categories? Please explain why.

22) If we were to modify the application of CESS, what factors should we consider in determining whether specific capex should be excluded from the CESS?

4.2 Opex Efficiency benefit sharing scheme (EBSS)

The Efficiency benefit sharing scheme (EBSS) provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between the business and network users. Our base-step-trend forecasting methodology for opex is closely linked to the EBSS. The constant incentive to reduce opex year on year gives us confidence that we can rely on a single base year of actual data for the purposes of forecasting future years. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.

We also exclude categories of costs, from the EBSS, that we do not forecast using a single year revealed cost forecasting approach in the following control period. We do this to fairly share efficiency gains and losses. If we do not use a single year revealed cost forecasting approach, we may not pass the benefits of these revealed efficiency gains to consumers. It follows that consumers should not pay for EBSS rewards where they do not receive the benefits of a lower opex forecast.

In the current period, we excluded the following categories of opex not forecast using a single year revealed cost approach:[53]

- GSL payments
- movements in provisions
- debt raising costs
- Innovation fund allowance
- Demand Management Innovation Allowance.

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51 AEMC, *Managing ISP project uncertainty through targeted ex post reviews*, August 2024

52 NER, cl. 11.172.2(a).

53 AER, *Final decision – AusNet Services distribution determination 2021-26 – Attachment 8 – Efficiency benefit sharing scheme,* April 2021, pp. 26-27.

AusNet has proposed to continue to apply the EBSS in the 2026-31 regulatory control period, and to add an additional exclusion for its proposed Regional Reliability Allowance.

Questions on EBSS

23) Do you consider AusNet's proposed exclusion of its Regional Reliability Allowance from the EBSS in 2026-31 reasonable? Please explain why.

4.3 Demand management incentive scheme (DMIS) and Demand management innovation allowance mechanism (DMIAM)

The DMIS provides network businesses with financial incentives for undertaking efficient demand management activities as an alternative to more expensive capital investment in their networks, the costs of which have longer term impacts on consumers.

The DMIAM works alongside the DMIS to fund research and development into further, innovative demand management projects that have the potential to reduce long term network costs.

AusNet has proposed to continue to apply the DMIS and DMIAM in the 2026-31 regulatory control period.[54]

AusNet's proposal has not identified any projects suitable for inclusion under the DMIS in the current regulatory period. However, AusNet has proposed to have access to the DMIS in the next regulatory period as opportunities may arise.

In the current 2021-26 regulatory period, AusNet used the DMIAM to participate residential demand response projects, large scale storage integration trial and electric vehicle charging management. AusNet has proposed a maximum allowance of $4.76 million for the DMIAM for the 2026-31 period. According to its regulatory proposal, AusNet expects to use the DMIAM for targeted innovation and research projects to further its understanding of how to manage peak demand in winter months as AusNet forecast to become a winter peaking network by 2027.[55]

4.4 Service target performance incentive scheme (STPIS)

The STPIS provides financial incentives for network businesses to maintain and improve network reliability and customer service performance, to the extent that consumers are willing to pay for such improvements. The STPIS acts as a balance to our expenditure incentive schemes, ensuring businesses focus on genuine efficiency gains and do not compromise service levels when reducing expenditure. Penalties and rewards under the STPIS are set based on consumers' willingness to pay for improved service.

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54 AER - Final Framework and Approach - Victorian electricity distribution determinations 2026-31 - July 2024

55 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 275

The STPIS that applies to Victorian distributors, including AusNet, consists of a service standards factor (s-factor) adjustment to the annual revenue allowance for standard control services. This scheme rewards distributors for improved service compared to predetermined targets or penalises them for diminished service. Targets relate to service parameters concerning reliability and quality of supply, and customer service.

As in the current period, AusNet has proposed that the Customer Service (telephone answering) component of STPIS will not apply if we accept its proposed Customer Service Incentive Scheme (CSIS) proposal for the 2026-31 period. We discuss the proposed CSIS further below.

If the CSIS is applied, AusNet is seeking to split the revenue at risk under the two schemes as follows:

- ±4.5% for STPIS (reliability component only)
- ±0.5% for the proposed CSIS.

This is the same allocation that applied in the current, 2021-26 period.

Questions on STPIS

24) Do you have any views on AusNet's proposed allocation of revenue at risk between the STPIS and its proposed CSIS?

4.5 Customer service incentive scheme (CSIS)

The CSIS is designed to encourage electricity distributors to engage with their customers to:

- identify the customer services their customers want improved, and
- set targets to improve those services based on their customers' preferences and support.

The CSIS is a flexible 'principles based' scheme that can be tailored to the specific preferences and priorities of a distributor's customers. It allows for the evolution of customer engagement and adapts to new technologies. Safeguards ensure that any rewards or penalties are commensurate with improvements or detriments to customer service. For the CSIS to be applied, incentive designs must meet the scheme's principles and be developed through genuine customer engagement.

We support the application of a CSIS where a distributor's CSIS proposal contains an incentive design that meets the scheme's principles, includes a sound measurement methodology, and comes with evidence of supporting customer engagement on, and co-design of, the CSIS.[56]

This is the second regulatory period for which AusNet has proposed a CSIS. AusNet's original CSIS for the 2021-26 regulatory period included 4 performance parameters:

- Customer satisfaction with unplanned outages

[56] AER, *Framework and approach: AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026–31* – July 2024, p.19.

- Customer satisfaction on planned outages
- Customer satisfaction with customer service for new connections (basic and standard), and
- Customer satisfaction with customer service in managing complaints.

In the 2021-26 regulatory period, AusNet has received reward payments and incurred penalties. The 'complaints' parameter was suspended for the 2021-22 and 2022-23 regulatory years due to concerns with the quality of data available to measure performance.

AusNet has designed its 2026-31 proposed CSIS through engagement with its Customer Experience Panel.[57] It worked with the Panel to answer the focus question "How might we design a CSIS that delivers maximum benefit for customers?", with engagement on CSIS design and principles including:

- Reviewing its current CSIS metrics with a view of whether changes needed to be made for 2026-31
- Revenue at risk for the CSIS
- C-Satisfaction methodology
- Setting targets for the new CSIS metrics.

AusNet's proposed performance parameters for the 2026-31 regulatory period now include:

- Customer satisfaction with unplanned outages
- Customer satisfaction with planned outages
- Customer satisfaction with new connections
- A new, First call resolutions (FCR) parameter.

AusNet has proposed removing the customer satisfaction with claims and complaints parameter, with support from its Customer Experience Panel.

Another key change to AusNet's proposed CSIS for the 2026-31 period is the change from telephone to online surveys for customer satisfaction, which was supported by AusNet's Research & Engagement Panel. The new survey method includes:

- an online survey delivered via customers' preferred channel for AusNet communications (SMS/email)
- a survey link at the end of every interaction message, providing a chance for every customer to provide immediate or almost-immediate feedback post-interaction
- an adjustment to the wording of survey questions to make it clearer to understand.

AusNet has also proposed to increase the revenue at risk from +/-0.5% in the 2021-26 period to +/-1%. In doing so, it proposed to keep the STPIS incentive at +/-4.5%, with the combined total incentives from the STPIS and CSIS schemes equalling 5.5%.

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[57] AusNet, Electricity Distribution Price Review 2026-31 Regulatory Proposal, January 2025, p.305-308

AusNet has proposed an equal weighting and incentive rate for all 4 parameters, as its panel did not express a desire to value one over another.

Questions on CSIS

25) Do you have feedback on the design of AusNet's proposed CSIS?

26) Do you have views on the proposed application of any of the CSIS?

27) Do you have views on the removal of the 'customer satisfaction with claims and complaints' parameter?

28) Do you have views on the addition of the new first call resolution metric?

29) Do you have views on the proposed increase to the revenue at risk from +/-0.5% to +/-1%?

30) Do you have any views on AusNet's engagement process?

4.6 Victorian f-factor scheme

The f-factor scheme is a regulatory instrument under the *National Electricity (Victoria) Act 2005*, which provides Victorian businesses with an incentive to lower the number of fire-starts on their networks. Application of the f-factor scheme to Victorian distributors is a requirement under the *National Electricity (Victoria) Act 2005* F-factor Scheme Order 2016.[58]

The AER's role in the f-factor scheme is limited and is focused on giving effect to incentive payments and penalties by adjusting the distributors' allowable revenue each year in accordance with the F-factor Order, as based on fire start reporting validated by Energy Safe Victoria. All other aspects of the scheme are set out by the Victorian government including the targets and incentive rates. As part of our determination for AusNet, we will forecast incentive payments for the 2026-31 period which will take the form of adjustments to AusNet's regulated revenues for each regulatory year.

[58] *National Electricity (Victoria) Act 2005 F-FACTOR SCHEME ORDER 2016 Order in Council*, 22 December 2016, section 8, p. 3239 - http://www.gazette.vic.gov.au/gazette/Gazettes2016/GG2016G051.pdf.

5 Network pricing

Our determination for AusNet divides the regulated direct control services it provides into different classifications, which determines how it will recover the cost of providing those services through network prices:

- Standard control services are those that can only be provided by the relevant distributor, and are common to most, if not all, of a distributor's customers. The costs of providing these services are captured in the building block revenue determination we've discussed in the previous sections of this paper and shared between all customers.
- Alternative control services are those that can only be provided by the relevant distributor but will only be required by some of its customers, some of the time; or services that can be purchased from the relevant distributor, but which can also—or have the potential to be—purchased from a competing provider. The cost of providing alternative control services is recovered from users of those services only.

We set out our proposed approach to the classification of distribution services to be provided by AusNet in 2026–31 in our Framework and Approach paper in July 2024.[59] Our proposed approach to service classification is set out prior to the submission of revenue proposals, in order to provide certainty as to how costs for various services should be allocated for the purposes of recovery. Our determinations must apply the classifications set out in the Framework and Approach paper unless we consider a material change in circumstances justifies departure from them.[60] AusNet itself has not proposed any such departures.

Questions on service classification

31) Do you have feedback on the classification of services set out in the Framework and Approach Paper, and whether there has been a material change of circumstances since July 2024 that may require changes?

5.1 Control mechanisms for standard and alternative control services

A distribution determination must impose controls over the prices and/or revenues of direct control services.[61] The forms of control that are to apply, and the control formulae that give effect to them, are set out in our Framework and Approach paper prior to the submission of revenue proposals, in order to provide certainty to AusNet and other stakeholders.[62] There

59 AER – *Final Framework and Approach – Victorian electricity distribution determinations 2026-31* – July 2024, Appendix A.

60 NER, cl. 6.12.3(b).

61 NER, cl. 6.2.5(a).

62 AER – Final Framework and Approach – Victorian electricity distribution determinations 2026-31 – July 2024, Chapter 3.

are only limited circumstances in which our distribution determination can depart from the decision we made in the Framework and Approach paper regarding control mechanisms.[63]

We can only depart from the form of control set out in our Framework and Approach paper if:[64]

a) We have departed from the classification of a distribution service as set out in that paper; *and*

b) We consider that no form of control mechanism set out in that paper should apply to that distribution service.

We can only depart from the formulae that give effect to the control mechanisms set out in our Framework and Approach paper if we consider that a material change in circumstances justify departing from those formulae.[65]

In our Framework and Approach paper for the 2026–31 period, our decision was to continue to apply the same control mechanisms as we applied in the current, 2021–26 period:[66]

- A revenue cap for standard control services
- A revenue cap for metering services (as alternative control services)
- A price cap for ancillary network services and public lighting (as alternative control services).

We discuss some of the differences between these forms of control in section 2.2.

In our consultation on the Framework and Approach paper we did not receive any submissions suggesting we depart from them. As part of this consultation, we are interested to hear to whether, in light of AusNet's proposal, stakeholders consider there is a basis to change the control mechanisms set out in the paper.

We made only minor changes to the formulae for those forms of control, to align with our final decisions for control mechanisms for other distributors and to remove obsolete true ups associated with the 2009–2015 Victorian smart meter rollout.[67]

AusNet adopted this approach in its proposal.

Questions on control mechanisms

32) Do you have any feedback on the form of control set out in the Framework and Approach paper and AusNet's proposal and whether, if you've suggested a change to service

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

64 NER, cl. 6.12.3(c).

65 NER, cl. 6.12.3(c1).

66 AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021-26 – Attachment 14 – Control mechanisms*, April 2021.

67 AER – Final Framework and Approach – Victorian electricity distribution determinations 2026-31 – July 2024, Chapter 3.

classifications in response to the question above, the control mechanisms set out in that paper remain appropriate?

33) Do you have any feedback on the control formulae set out in the Framework and Approach paper and AusNet's proposal, and whether there has been a material change in circumstances which might justify a departure from these formulae?

5.2 Tariff structure statement

As part of their regulatory proposals, distributors are required to submit a tariff structure statement (TSS) to the AER, accompanied by an indicative pricing schedule.[68] The TSS will apply for the 5-year regulatory control period. A TSS must set out a distributor's:

- proposed network tariffs (including tariff structures and charging parameters)
- export tariff transition strategy
- policies and procedures the distributor will use to assign customers to network tariffs or reassign customers from one network tariff to another.

Network tariffs provide the charging framework through which distributors recover their costs for providing network services (transporting electricity to customers). After AER approval, a TSS becomes a compliance document against which the AER assesses the distributor's annual pricing proposals.

TSSs also set out how distributors propose to progressively reform their network tariffs to better signal to customers the cost of providing network services. As customers ultimately pay for upgrades to network services, tariff reform that encourages more efficient use of the network will lead to lower network costs for all customers.

Network tariffs are targeted at retailers who package them with other costs in their service offerings to electricity customers, including the cost of wholesale energy. As a result, the retail electricity tariff may not directly reflect the network tariff.

Victorian distributors plan and develop their TSSs for strong consistency across the distributors. For this reason, much of this section of the issues paper refers to Victorian distributors generally, only drawing out AusNet specifically where it proposed something unique.

This is the third regulatory period for which Victorian distributors have been required to submit a TSS. Their TSSs for the 2026–31 regulatory period each continued a process of incremental tariff reform. However, the energy sector transition has increased the importance and urgency for greater progress on network tariff reform. We've already seen the benefits from cost reflective tariffs to consumers in another jurisdiction when the AER rejected $76.1 million in proposed capex from Evoenergy that it proposed to support EV driven demand (almost 15% of its proposed capex). We rejected that capex on consideration that there would be near 100% smart meter roll out by 2030 and all EV owners would be assigned to cost reflective network tariffs.

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[68] NER, cll. 6.12.3(c)(1) and (2); 6.12.3(c1); 6.18.1A(e).

The AER considers tariff reform should ultimately progress to 100% assignment to cost reflective network tariffs to ensure lowest cost network services for all consumers. We also note the ongoing importance of small customers retaining the option to choose a flat retail offer and to have the choice (through their retailer) of an alternative cost reflective network tariff.

Historically, distributors charged retailers based on their customers' electricity use irrespective of when it was consumed. But distribution costs are driven by how consumers use (or supply) energy during periods of maximum (and minimum) demand. Increasing consumption during periods of abundance and reducing consumption (and increasing supply) during periods of scarcity, mitigates network investment needs. This leads to cheaper electricity bills and is in the long-term interests of all consumers. Cost reflective network tariffs provide a low-cost mechanism to incentivise this outcome.

Cost reflective network tariffs ensure the price charged for individual consumers more accurately reflects the way they use electricity. Under cost reflective pricing, electricity use at times of abundance attracts lower rates that reflect there is plenty of unused network capacity, electricity use in peak periods (times of scarcity) attracts higher rates that better reflect the costs of network investment needed to accommodate peak demand. Similarly, exports at times of abundance will attract charges to reflect the cost of providing export services and exports in times of scarcity could receive rewards.

Network tariffs are charged to retailers and cost reflective pricing is intended to facilitate retailer innovation to increase network capacity utilisation. Retailers can achieve this with retail offers that encourage consumers with flexible load to shift their behaviour (only some of the load, some of the time is required to mitigate network investment) or with business models that offer control and orchestration of load and supply. More specifically, retailers may manage and respond to network price signals by offering customers insurance style flat tariffs (either with a price premium to account for network tariff price risk or with elements of control to manage the price risk), pass network prices through to end users, or offer 'prices for devices' style offers. Where customers prefer flat electricity charges, including for customers experiencing vulnerability, it is retailers who are best placed to offer flat billing structures as retailers already manage the complexities of the wholesale market on behalf of their customers (a fundamental part of their role).

With increasing levels of CER, we anticipate more retailers and intermediaries will be developing business models that seek value from cost reflective tariffs and flexible load/supply. We encourage retailers to continue to innovate to access this value through helping consumers shift and reduce their load, including through drawing on energy efficiency initiatives and offering flat retail tariffs where this is preferred by customers.

Cost reflective network tariffs remain as important now as when reform commenced. All distributors are anticipating an increase in maximum demand and increasing prevalence of minimum demand periods, both of which drive capex. As discussed in section 2.2, under the revenue cap form of control that currently applies to Victorian distributors there is a risk that—for the same amount of revenue—lower than forecast volumes could mean higher network tariffs. This would further increase the importance and scope for cost reflective network tariffs to increase network utilisation.

CER are increasing rapidly and are a material contributor to the maximum and minimum demand issues. However, they are also generally flexible and represent a potential solution to demand driven capex if they can be operated in ways that shift demand to periods of abundance and shift supply to periods of scarcity (i.e. increase network capacity utilisation for both import and export services). Over the past two resets, Victorian distributors have progressively increased the cost reflectivity of their cost reflective tariffs by more narrowly targeting the periods of scarcity and abundance and by increasing the price ratios between periods of scarcity and abundance.

However, despite having long-term 100% smart meters, only 29.39% of Victorian residential customers (47.43% of AusNet residential customers) are on cost reflective network tariffs.[69] In this context, with increasing maximum demand, increasing prevalence of minimum demand and increasing uptake of CER, the AER expects all Victorian distributors to demonstrate ambition in progressing tariff reform, including to encourage assignment to cost reflective tariffs. We are interested in stakeholder views on what more the Victorian distributors should be doing in their tariff strategies to progress tariff reform and further increase network capacity utilisation.

Based on our initial review we consider the Victorian distributors have provided TSSs that aim to meet our expectations. However, we will assess each TSS in further detail against the pricing principles and other NER requirements, including with respect to demonstrating progress on tariff reform to mitigate future network costs (i.e. by aligning their tariff strategies with their broader business plans.

Questions on TSS

34) Do you consider there are further tariff reforms AusNet should implement to encourage increased network capacity utilisation and mitigate future network costs? Identify any specific options you think should be considered.

35) Do you consider there are any aspects of AusNet's proposed TSS that require adjustment?

5.2.1 Expectations for tariff structure statements

The Handbook sets out our expectations that a proposed TSS will:

- Demonstrate progression of tariff reform consistent with the network pricing objective and pricing principles set out in the NER
  - The Victorian distributors' progress on tariff reform is limited by assignment policies for small customers to cost reflective tariffs that remain largely opt-in (to align with Victorian Government positions). With that constraint, they incentivise uptake by continuing to discount the residential time-of-use tariff relative to tariffs without cost-reflective price signals. They also proposed new default residential tariffs that include a solar soak period and optional residential tariffs that also feature stronger price

[69] Annual RIN Responses for AusNet Services, Jemena, CitiPower, Powercor and United Energy, consolidated, October 2024.

signals, and export charges and rewards. Large business customers are in the process of moving to or already on fully cost-reflective tariffs.

- Demonstrate incorporation of its tariff strategy in its overall business plan
  - The distributors linked their proposed TSSs to their forecast network expenditure and designed tariffs to encourage increased network capacity utilisation. This was demonstrated in their respective overview documents.
- Demonstrate significant stakeholder engagement and broad stakeholder support
  - The distributors collectively held 3 tariff workshops over 7 months which included a broad and diverse range of stakeholders. The distributors' proposed TSSs explain how their proposed suites of tariffs were linked to stakeholder feedback.
- Demonstrate insight into and management of any adverse customer impacts
  - The distributors modelled customer bill impacts for a variety of residential and small business customers, including for different load profiles (customer archetypes). The distributors also provided the option for small customers to opt-out of the default time-of-use tariffs.

5.2.2 Progress on tariff reform

The Victorian distributors' proposed tariff reforms focus on providing increasingly cost reflective tariffs that encourage efficient integration of consumer energy recourses. Key reforms proposed and common to all networks are:

- default residential time-of-use tariffs which feature new solar soak periods and shorter peak periods than current time-of-use tariffs
- continued discounting of the residential time-of-use tariff relative to tariffs without cost-reflective price signals to encourage uptake
- optional residential time-of-use tariffs with stronger (than default tariff) price signals, export charges (during peak export periods when excess roof-top solar is contributing to network constraints) and export rewards to encourage export of energy to the network during evening peak periods when more energy is needed
- withdrawal of the optional residential demand tariff
- withdrawal of legacy residential time-of-use tariffs (except in AusNet).

Additional reforms proposed by AusNet are:

- new residential dedicated circuit tariff
- withdrawal of obsolete residential and small business embedded network tariffs
- assignment of medium and large business customers on legacy tariffs to transitional critical peak demand tariffs
- amended critical peak medium and large business demand tariffs to allow AusNet to call 2 to 5 critical peak days per year (instead of exactly 5)
- introduction of individually calculated customer tariffs for new large business customers.

5.2.3 Long run marginal cost (LRMC)

LRMC refers to the distributor's forward-looking cost of providing one more unit of service, measured over the long run where all factors of production can be varied.[70] Under the NER, a distributor's TSS must comply with the pricing principles.[71] One of these pricing principles requires that network tariffs be based on the LRMC of providing a distribution service to the customer.[72]

Distributors typically demonstrate compliance with this pricing principle by calculating LRMC using forecasts for demand and expenditure (where it relates to forward-looking costs) as inputs. The Victorian distributors used 5 years of capital expenditure forecasts in their LRMC calculations. This forecast horizon does not adequately capture the long run – we have previously considered a forecast horizon of at least ten years was required.[73]

Questions on TSS

36) Do you have views on AusNet's approach to calculating LRMC?

5.2.4 Export reward tariffs

All Victorian distributors proposed to introduce opt-in export reward tariffs for residential customers, that is, opt-in rewards and charges for customers who export electricity to the grid.[74] The tariffs included relevant customer protections as required by the NER, including:

- a basic export level (the amount of electricity a customer may export at no cost during peak export periods in the middle of the day)
- an export tariff transition strategy.

No export reward tariffs have been proposed for small or large business customers.

All Victorian distributors proposed that the export reward and export charge periods align with the proposed default residential TOU charging windows. From 4pm to 9pm, during the evening peak period, all exports would receive an export reward (to incentivise exporting when it is most needed). From 11am to 4pm, exports above the basic export level would attract a modest charged (to incentivise self-consumption when solar exports are abundant). All Victorian distributors proposed a basic export level of 1 kWh per day. AusNet (unlike CitiPower, Powercor, and United Energy) proposed export reward tariffs without seasonality elements.

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70 NER, Chapter 10 defines long run marginal cost as 'the cost of an incremental change in demand for direct control services provided by a distribution network service provider over a period of time in which all factors of production required to provide those direct control services can be varied.'

71 NER, cl. 6.18.1A(b)

72 NER, cl. 6.18.5(f)

73 AER, *Draft decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021-26 - Attachment 19 - Tariff structure statement - September 2020*, p. 41.

74 As allowed for under the AEMC's Access, pricing and incentive arrangements for distributed energy resources rule change (12 August 2021).

Export reward tariffs remain a relatively new feature for TSSs, so we intend to closely examine Victorian distributors' proposals – as the AER has done for the NSW and ACT 2024–29 resets and is currently doing for the QLD and SA 2025–30 resets.

5.2.5 Large business tariffs

The Victorian distributors proposed large business tariffs that would be or would become fully cost reflective over the 2026–31 regulatory period. AusNet and Jemena also proposed individually calculated customer (ICC) tariffs in response to the AER's 2021–26 regulatory period determination which requested that distributors pursue the development of these tariffs for the 2026–31 period.[75] ICC tariffs are typically offered to customers whose energy use is so large they can have localised impacts on a networks' investment needs and the tariffs are designed to reflect the individual costs or benefits they could drive.

AusNet has proposed to transition customers on legacy tariffs to transitional critical peak demand tariffs. These tariffs will would gradually increase in cost reflectivity over the 2026–31 period (to manage bill impacts) until the transition tariffs match the cost reflective critical peak demand tariffs for the start of the 2031–36 regulatory period. AusNet has also proposed ICC tariffs for new high voltage and sub-transmission customers.

5.2.6 Grid-scale storage tariffs

All Victorian distributors have either proposed or proposed to trial grid-scale storage tariffs for the 2026–31 period. The proposed tariffs for community batteries include either a fixed or a capacity charge alongside volumetric import and export charges and rewards. The tariffs are similar in structure to the proposed optional residential export reward tariffs.

AusNet has proposed to continue to trial community battery tariffs to collect information to inform future tariff proposals. AusNet trial tariffs feature no import charges during the solar soak period, and an export reward during peak periods.

5.2.7 Tariffs for electric vehicles (EVs)

The Victorian distributors' TSS proposals include features to address the increasing uptake of electric vehicles on their distribution networks. However, we are interested in whether there is more that distributors could do to give effect to their assignment policies for small customers with electric vehicle supply equipment (colloquially termed EV chargers).

The distributors maintained their current assignment policies for residential and small business customers with a dedicated EV charger.[76] These customers must be on a cost-reflective network tariff and cannot opt out to a flat network tariff. The default time-of-use tariffs are designed to encourage these customers with a dedicated charger to charge EVs during the lower priced off-peak and solar soak periods. In addition, these customers can

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75 AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021-26 - Attachment 19 - Tariff structure statement*, April 2021, p. 12.

76 The Advanced Meter Infrastructure (Retail and Network Tariffs) Order in Council defines a dedicated charger as 'a dedicated charger for an electric powered passenger car with a specified capacity or charging rate of 3.6kW or greater.'

access the optional residential export reward tariffs which are designed to encourage residential EV owners to charge EVs using their own solar.

Relevant to EV public charging stations, the distributors have continued their current assignment policy of offering medium business customers access to the default demand tariff or an optional time-of-use tariff.[77]

These small customer and medium business assignment policies align to a Victorian Government Order in Council that requires distributors to:

- not allow access to a flat network tariff if they can identify a small customer with a dedicated EV charger
- allow medium business customers to have access to a tariff other than a demand tariff.[78]

However, Victorian distributors and Victorian Government have not identified a formal mechanism by which distributors can identify that a customer has an EV charger. We note that installation or replacement of electric vehicle supply equipment concerns work that must be covered by a Certificate of Electrical Safety (CoES) as required by Energy Safe Victoria; the CoES lists or describes electrical work done, that it has been tested and meets current wiring rules. While the data as currently collected and recorded may not be readily extractible for/by distributors, we consider it may provide the foundation for a mechanism to identify customers with EV chargers. We are interested in what more Victorian distributors could do to identify small customers with EV chargers in order to give effect to their assignment policies.

The distributors are also trialling innovative tariffs for EVs. AusNet has proposed to continue its trial of a residential dynamic EV charging tariff which includes rebates when customers increase or curtail charging in response to a notification from AusNet.

Questions on TSS

37) Are there formal mechanisms the distributors could pursue or develop to identify small customers with electric vehicle supply equipment (EV chargers)?

5.3 Alternative control services

Alternative control services are customer specific, or customer requested services and so the full cost of the service is attributed to the customer, or group of customers, benefiting from the service. Our determinations set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service. Our F&A classified the following as ACS:

- metering services

[77] The Advanced Meter Infrastructure (Retail and Network Tariffs) Order in Council defines a medium customer as 'a customer who is not a small customer and whose aggregate consumption of electricity is not […] more than 160 MWh per annum.' The same Order defines a small customer as a domestic customer or a small business customer (consumption not more than 40 MWh per annum).

[78] Victorian Advanced Meter Infrastructure (Retail and Network Tariffs) Order in Council, s11 and s12.

- ancillary network services
- certain connection services, and
- public lighting services.

5.3.1 Metering

Metering services include the maintenance, reading, data services and recovery of capital costs of meters. Victorian distributors are currently the exclusive providers of metering services to residential and small business in Victoria.[79]

As a result of the mandated smart meter rollout in Victoria from 2006, nearly all Victorian households and businesses have smart meters installed. This differs from other networks across the NEM, where the AEMC has recently introduced a rule to accelerate the rollout of smart meters.[80]

The smart meters in Victoria are now coming to the end of their asset life, both financially (through depreciation) and, as indicated by the Victorian distributors in their proposals, mechanically (through failure of the meter or component). As these smart meters come to the end of their financial asset life (set at 15 years), the capital cost to be recovered reduces. This significantly reduces the costs to be recovered in relation to metering services as capital costs make up between 49% and 72% of the Victorian distributors' metering revenues in 2025–26.[81] However, as any smart meters come to the end of their mechanical life (determined by failure and not a set number of years as is the case for financial asset life), the likelihood of failure of the meter or its components increases[82] [83]. Capital costs then increase to reflect the replacement of these meters.

The Victorian distributors proposed to take a proactive approach to replacing smart meters in their 2026–31 regulatory proposals (with some differences).[84] This would mean smart meters are replaced to avoid failure, based on end of financial life and anticipating end of mechanical life, and would be expected to produce relatively stable price increases over the

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79 Victoria Government Gazette, *No. S 346*, 12 October 2017 - https://resources.reglii.com/VGG.2017.10.12.S346.pdf

80 AEMC, *National Electricity Amendment (Accelerating Smart Meter Deployment) Rule*, November 2024.

81 AER, *AusNet Services 2021–26 metering PTRM – 2024–25 RoD update*, February 2024; AER, *CitiPower 2021–26 metering PTRM – 2024–25 RoD update*, March 2024; AER, *Jemena 2021–26 metering PTRM – 2024–25 RoD update*, December 2023; AER, *Powercor 2021–26 metering PTRM – 2024–25 RoD update*, March 2024; AER, *United Energy 2021–26 metering PTRM – 2024–25 RoD update*, March 2024; AER analysis.

82 Failures generally relates to meter batteries, load switch controls, flash storage/memory chip errors, mesh network interface cards, and display screens, all of which contribute to data quality or functional issues.

83 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, pp. 347–8; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 21; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 112; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97.

84 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 350; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 95; Jemena, *2026-31 Proposal*, January 2025, p. 121; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 110; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 95.

2026–31 regulatory period and beyond. That is, the price decline that would otherwise occur would be offset by a proactive replacement of smart meters, meaning that prices would not decline as significantly (or at all) and therefore not increase as much (or at all) as replacements occur. This approach also allows for more efficient replacement programs, taking advantage of economies of scale, reducing the overall costs of meter replacement.[85] A more proactive replacement is also likely to reduce risks related to safety and reliability.[86]

In contrast, a reactive approach of replacing these smart meters upon failure or anticipated failure (that is, based on mechanical asset life), would produce a sharp decline in prices over the 2026–31 regulatory period as capital cost recovery winds up. This would be followed by a slow increase in prices as meters are replaced, with this increase expected to get more apparent in the following 2031–36 regulatory control period as failure rates, and therefore replacements, increase. The Victorian distributors noted this approach includes the risk of large numbers of meters failing in a similar timeframe, requiring replacement and increasing price volatility, as well as increasing compliance risks.[87] [88] It would be expected that in the long-term prices would naturally stabilise as a more organic replacement of meters takes place over time.

The Victorian distributors noted in their proposals that any savings from more reactive replacement programs, either through replacement of failed meters or failed components, are unlikely to offset the additional labour costs of replacement.[89] AusNet has noted that refurbishment is not possible due to pre-2018 meters not being capable of 5-minute settlement, which is required for all newly installed meters.[90] The Victorian distributors also noted the increased demand for multi-phase meters either for new connections or upgrades to current meters to support Victoria's Gas Substitution Roadmap, which cannot be addressed through the use of refurbished single-phase meters.[91]

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85 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 353; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97; Jemena, *2026-31 Proposal*, January 2025, p. 121; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 112; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97.

86 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 353; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, pp. 21–2; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 112; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97.

87 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 345; CitiPower, *BUS 11.01 - Metering*, January 2025, p. 17; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, pp. 21–2; Powercor, *BUS 12.01 - Metering*, January 2025, p. 17; United Energy, *BUS 12.01 - Metering*, January 2025, p. 17.

88 Victorian distributors are required to repair/replace faulty meters within 10 business days of being reported, which differs to 15 business days allowed for other jurisdictions in the NEM.

89 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 351; CitiPower, *BUS 11.01 - Metering*, January 2025, p. 17; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 22 Powercor, *BUS 12.01 - Metering*, January 2025, p. 17; United Energy, *BUS 12.01 - Metering*, January 2025, p. 17.

90 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 351.

91 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 352; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, pp. 98-99; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 22; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, pp. 113-114; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, pp. 98-99.

We will consider several factors as a part of our assessment of these proposals and seek stakeholder views on these below. These include:

- Affordability – whether the potential decreases in prices under a more reactive approach are more appropriate in the current environment or may offset potential increases in other areas of the network or retail bill.
- Resource strain and deliverability – whether a proactive metering replacement program in Victoria puts the AEMC's accelerated smart meter rollout across other NEM networks at risk by increasing demand for materials and labour from shared markets and reduces the possibility of deliverability in Victoria.
- Forecast risk burden – under a revenue cap if forecasts for proactive replacement programs are not met, customers still pay the same prices as if the replacement program goes to plan. Mechanisms have been introduced in other jurisdictions to true-up forecasts and manage such risks.
- Alternatives – whether other options are viable, such as proactive replacement of components that are at risk of failure, or opportunities to defer the start of the proactive meter replacement program to achieve some short-term cost-relief.

A summary of AusNet's proposal is provided below. The Victorian distributors have proposed slightly different proactive approaches and pricing outcomes, with summaries for Jemena, and CitiPower, Powercor, and United Energy available in their respective issues papers. More detailed information is also available in each of the Victorian distributors' proposals.

AusNet has proposed to begin a proactive replacement program in July 2028,[92] from the third year of the next regulatory period, to balance affordability concerns in the 2026–31 period with overall efficiencies in the long-term.[93] Specifically it proposed a program that will focus on replacing the oldest meters, meters with hot-water load control contractors, and meters with memory issues.[94]

AusNet's proposal includes a reduction of the main single phase metering tariff from $71.18 in 2024–25[95] to $37.44 in 2030–31 ($nominal), a reduction of 47%.[96] AusNet's proposed decrease reflects the delayed commencement of the proactive replacement program, effectively replacing less meters across the 2026–31 period as a result.

AusNet has also proposed to introduce separate charges for customers who remain on manually read meters.[97] AusNet has proposed to not pass through the price reductions resulting from a delayed proactive replacement program to these customers to send a price signal that incentivises them to replace these meters. That is, customers who have not upgraded to smart meters will pay higher prices than those who have smart meters.

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92 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 345.

93 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 353.

94 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 350.

95 2024–25 prices are used as a base for analysis, being the latest approved prices available at this time.

96 AER, *Stakeholder report – AusNet Services – 2024–25 Annual Pricing Proposal*, May 2024; AusNet, *ACS Indicative pricing schedule*, January 2025; AER analysis.

97 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 354.

Questions on metering

38) Do you consider proactive metering replacement is appropriate, and do you have any views around the different approaches proposed by the businesses?

39) In the short-term, how do you consider affordability and price stability should be balanced in relation to the pricing of metering services?

40) Do you have any views on how proactive metering replacement programs in Victoria may affect the ability for non-Victorian networks to complete the AEMC's accelerated smart metering rollout program and / or impact deliverability in Victoria?

41) Do you consider any alternative approaches may be more appropriate such as a proactive metering component replacement program, or a delayed start to a proactive metering replacement program (as proposed by AusNet)? If so, please explain why.

42) Do you consider a true-up mechanism should be introduced to ensure customers are protected from unfulfilled forecasts in relation to proactive replacement programs? Why?

43) Do you think that customers that remain on legacy meters should face higher, more cost-reflective price signals (as proposed by AusNet)? If so, please explain why.

44) More generally, do you have any other comments on the Victorian distributors' metering services proposals?

5.3.2 Ancillary network services

Ancillary network services are non-routine services provided to individual customers on request. These services are either charged on a fee or quotation basis. Fee-based services tend to be homogeneous in nature and can be costed in advance of supply with reasonable certainty. Quoted service prices are determined at the time of a customer's enquiry and reflect each customers' individual requirements.

Ancillary network services are regulated by price cap. Our distribution determination sets first year price caps for fee-based services and labour escalators are used to escalate prices for the remaining years of the regulatory period, and capped labour rates used in quoted services. Labour costs make up a large proportion of ancillary network service costs. Another significant cost element is the time taken to perform the service, including travel time. Our assessment will include review of these elements for the most frequently requested ancillary network services. We also benchmark proposed labour rates and prices for fee-based services across distribution networks as well as with prices from the current regulatory period.

In March 2022, we published a standardised ancillary network services model for use by electricity distributors to develop their proposed prices. This streamlines our assessment,

increases consistency, and provides stakeholders greater scope to engage in our distribution determinations.

5.3.2.1 Pre-lodgement engagement and service offerings

AusNet did not conduct specific engagement on ancillary network services in developing its proposal beyond some initial general consultation in the Framework and Approach stage.[98]

We note AusNet's proposed list of fee-based services remains largely unchanged to the current period and under its quoted fees it has added some new enhanced connection services consistent with the Framework and Approach decision.

5.3.2.2 Benchmarking labour rates

Labour rates are a key cost input for ancillary network service prices. The distributors' proposed labour rates are assessed against benchmark efficient maximum labour rates developed using a bottom-up cost build up across five categories (administration, field worker, technical specialist, engineer and senior engineer).

The benchmark rates include increases to the superannuation allowance and the vehicle allowance because of the changes in the superannuation guarantee and inflation. The 'transmission line design engineer' has been removed from the engineer benchmark category as this occupation is not an appropriate benchmark for distributors' engineers.

AusNet has proposed to retain the same labour categories as in the current period along with the addition of a labour category for administration staff. We will examine the appropriateness of adding this category as a part of our assessment.

All of AusNet's proposed labour rates are lower than our preliminary maximum efficient benchmark rates. Our draft decision on AusNet's labour rates will be dependent on the updated maximum efficient benchmark rates after applying the most recent inputs.

5.3.2.3 Benchmarking fee-based services prices

Proposed fee-based services are also benchmarked against prices from the current regulatory control period as well as similar services supplied by other distributors. Cost inputs may also be benchmarked.

AusNet has used its own fee-based connections model to develop its proposed prices for its connection services, network ancillary services and metering ancillary services. AusNet has also proposed to include an additional 5.7% margin in its fee-based services.[99] For fee-based alternative control charges, AusNet has noted its calculated tax allowance is only applied to the margin and is not material.[100]

AusNet has noted its proposed prices for the most common connection services and network ancillary services will significantly increase this regulatory period.[101] In the first year of the

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98 AusNet EDPR 2026-31 – information request #003 – ANS stakeholder engagement and FBS cost drivers and Public Lighting services – 20250213

99 AusNet, Fee-based connections model 2027-31, January 2025.

100 AusNet, *Electricity Distribution Price Review 2026-31 – Regulatory Proposal*, January 2025, p. 372.

101 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 373.

next period, there is an average price increase of 13.42% across fee-based connection services, network ancillary services and metering ancillary services. In subsequent years AusNet proposed to escalate prices annually by CPI.[102] AusNet has submitted that the significant increases are due to:[103]

- Significant labour price increases due to the demand for skilled electrical workers growing faster than market supply
- Negotiated safety requirements which require having two qualified persons undertake all connection related activities
- AusNet moving away from an exclusive service provider model, which has improved its ability to secure labour and deliver services, but means lower rates based on contract exclusivity is no longer possible.

AusNet has considered its connection service fees are efficient as they:[104]

- are based on competitively tendered contracted rates
- are transparently reported in its RIN for fee-based ACS services in terms of revenue and costs.
- on average, benchmark well relative to its peers' current fees.

In terms of quoted services for the next period, AusNet has proposed quoted service hourly rates based on previously approved prices escalated by CPI and labour factors.[105]

Questions on ancillary network services

45) Do you consider the proposed labour rates and fee-based prices to be reasonable, particularly the proposed increases for connection services?

5.3.3 Public lighting

Public lighting services include the provision, construction and maintenance of public lighting assets. Customers of public lighting services primarily are local government councils and jurisdictional main roads departments.

There are a number of different tariff classes and prices for public lights. The factors influencing prices for a particular installation include which party is responsible for capital provision, and which party is responsible for maintaining and/or replacing installations.

AusNet's proposed prices recover the costs of providing public lighting services (including capex and opex as appropriate). For opex, AusNet has proposed $22.0 million over the 2026–31 period, 28% lower than in the current period, which it noted was as a result of reducing the number of less reliable lights.[106] For capex, it proposed $30 million over the

102 AusNet, *Electricity Distribution Price Review 2026-31 – Regulatory Proposal*, January 2025, p. 374.
103 AusNet, *Electricity Distribution Price Review 2026-31 – Regulatory Proposal,* January 2025, p. 373.
104 AusNet, *Electricity Distribution Price Review 2026-31 – Regulatory Proposal*, January 2025, p. 374.
105 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 373
106 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, pp. 369-70.

period, an increase of 20% compared to the current period, with increasing unit rates form its service providers and the replacement of the last inefficient lights being the underlying drivers. Corporate overheads are also a material driver of public lighting prices. AusNet has noted actual contract rates for labour and materials, that have been competitively tendered, have been used escalated by CPI and adjusted to reflect the forecast replacement volumes.[107]

AusNet has proposed to use our post-tax revenue model (PTRM) to forecast its fee-based public lighting charges in the next period. It has separate pricing structures for its central, north and eastern regions, which it stated take account of the higher costs in those regions with lower light densities and greater travel distances.[108] The proposed use of the PTRM is consistent with our expectations.

5.3.3.1 Pre-lodgement engagement

AusNet held multiple public lighting consultations and forums to prepare its public lighting proposal.[109]

In August 2024, AusNet discussed with councils its draft expenditure plans and prices, including discussion of inefficient and obsolescent lights and the approach to replace them with LED replacement globes. AusNet has stated it received very limited feedback on its proposal and no opposition to its proposed plans and prices. However, AusNet has noted that at the August 2024 forum, councils requested further discussion on smart lighting service options. In response, it held another forum in October 2024 and presented an option for smart lighting, including costs, and the level of commitment required from councils. While the proposal received some interest, AusNet has considered additional engagement (over 2025) and support from customers is required and has not included a smart lighting service in its proposal at this stage.[110]

5.3.3.2 Service and price offerings

AusNet has proposed to continue to offer the following public lighting services in the next period:[111]

- Operation, maintenance, repair and replacement of shared public lighting
- Operation, maintenance and repair of watchman or security lighting
- Provision of new public lights
- Alternation and relocation of public lighting assets.

AusNet has stated that Light Emitting Diode (LED) public lighting fees are proposed to increase on average by average 30% per light by end of period, which is equal to approximately a 5% increase per year. It noted this is driven by:

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107 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 367.

108 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 367.

109 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 370.

110 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, pp. 366, 370.

111 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 366.

- Updated unit rates and the replacement of inefficient and obsolete lights with LEDs
- The inefficient lighting costs being shared amongst a diminishing number of lights
- MV lighting operating and maintenance costs increasing due to replacement with most costly LED globes.

AusNet has also noted, however, that it anticipates councils, shires and road authorities can expect on average a decrease of 8% in their total public lighting cost per light and a 15% decrease in their energy costs for street lighting as councils will be shifting from inefficient light. This is despite a per light increase in its public lighting fees, of 2% per year (real) for efficient light and increase by 9% per year (real) for inefficient lights.[112] The reduction to councils' total bills is driven by the replacement of inefficient and older technology efficient lights with more energy efficient LED lights.

5.3.3.3 LED and other new technologies

AusNet has proposed to reduce the populations of all lighting technologies in the upcoming period, except for LEDs which will grow to replace the other technologies which are inefficient and/ or obsolete. This involves the proposed replacement of all High Pressure Sodium lights in the next period.[113] Further, due to Compact Fluorescent and T5 lights becoming obsolete, these will also be replaced, converting to LED only.[114]

AusNet has stated that while the increased replacement activity over the 2026-31 period will lead to higher capital costs in the immediate future, it will also result in future cost savings, particularly in rural and remote areas.[115]

As noted under pre-lodgement engagement, AusNet is also continuing to engage with its customers over 2025 around smart lighting services. As a part of this it will consider potential to include these new services in its revised regulatory proposal.[116]

Questions on public lighting

46) Do you consider AusNet's public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did the network communicate these potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

47) Do you support AusNet's proposed suite of public lighting services and prices?

48) Do you have any other comments on AusNet's public lighting proposal and their pre-lodgement engagement?

112 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 364

113 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 368

114 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 369

115 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 369

116 AusNet, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, January 2025, p. 366.

Summary of questions

Questions on demand forecasts

1) Do you have any feedback on the demand forecasts that have informed AusNet's proposal?

Questions on network utilisation

2) How well do you think AusNet's proposal takes existing and forecast network utilisation levels into account?

Questions on consumer engagement

3) How satisfied are you that AusNet sincerely partnered with consumers and equipped them to effectively engage in the development of its proposal?
4) How satisfied are you with the scope of issues on which consumers were engaged, and the level of detail at which AusNet engaged?
5) How satisfied are you with the variety of avenues AusNet used to engage with consumers?
6) How satisfied are you with the evidence AusNet's proposal provides of consumer preferences identified through its various engagement channels and that those preferences have been reflected in its proposal?
7) How well do you feel AusNet has responded to consumer and stakeholder feedback on its proposal, including but not limited to feedback on its draft proposal?
8) How would your views on AusNet's proposal change if its estimated network tariff and electricity bill impacts did not eventuate? For example:

- If tariff or bill impacts were potentially higher, are there areas in which you would be willing to accept a different outcome or prefer AusNet to spend less in order to avoid this?
- If tariff or bill impacts were potentially lower, are there areas in which you would prefer AusNet to deliver/spend more, or would you prefer the same outcomes at a lower cost or price?

Questions on regulatory depreciation

9) What are your views regarding the five new asset classes, the reasons for adding them, and their proposed standard asset lives?
10) What are your views regarding the proposed opening RAB value for the "Critical spares – network assets" asset class?

Questions on capex

11) Are there any particular areas of AusNet's capex proposal that you would expect further engagement on?
12) Do you consider that this proposal reflects consumers' preferences?
13) Do you consider that the areas we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

14) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed capex?

Questions on opex

15) Are there any particular areas of AusNet's opex proposal that you would expect further engagement on?

16) Do you consider that the proposal reflects consumers' preferences?

17) Do you consider that the areas we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

18) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed opex?

Questions on cost pass through events

19) Do you have any feedback on the new nominated cost pass through events?

Questions on CESS

20) Do you have any concerns with the application of the CESS for AusNet in the 2026–31 regulatory control period?

21) Do you consider there is need to modify the application of the CESS to allow CESS exclusions on certain capex categories? Please explain why.

22) If we were to modify the application of CESS, what factors should we consider in determining whether specific capex should be excluded from the CESS?

Questions on EBSS

23) Do you consider AusNet's proposed exclusion of its Regional Reliability Allowance from the EBSS in 2026-31 reasonable? Please explain why.

Questions on STPIS

24) Do you have any views on AusNet's proposed allocation of revenue at risk between the STPIS and its proposed CSIS?

Questions on CSIS

25) Do you have feedback on the design of AusNet's proposed CSIS?

26) Do you have views on the proposed application of any of the CSIS?

27) Do you have views on the removal of the 'customer satisfaction with claims and complaints' parameter?

28) Do you have views on the addition of the new first call resolution metric?

29) Do you have views on the proposed increase to the revenue at risk from +/-0.5% to +/-1%?

30) Do you have any views on AusNet's engagement process?

Questions on service classification

31) Do you have feedback on the classification of services set out in the Framework and Approach Paper, and whether there has been a material change of circumstances since July 2024 that may require changes?

Questions on control mechanisms

32) Do you have any feedback on the form of control set out in the Framework and Approach paper and AusNet's proposal and whether, if you've suggested a change to service classifications in response to the question above, the control mechanisms set out in that paper remain appropriate?

33) Do you have any feedback on the control formulae set out in the Framework and Approach paper and AusNet's proposal, and whether there has been a material change in circumstances which might justify a departure from these formulae?

Questions on TSS

34) Do you consider there are further tariff reforms AusNet should implement to encourage increased network capacity utilisation and mitigate future network costs? Identify any specific options you think should be considered.

35) Do you consider there are any aspects of AusNet's proposed TSS that require adjustment?

36) Do you have views on AusNet's approach to calculating LRMC?

37) Are there formal mechanisms the distributors could pursue or develop to identify small customers with electric vehicle supply equipment (EV chargers)?

Questions on metering

38) Do you consider proactive metering replacement is appropriate, and do you have any views around the different approaches proposed by the businesses?

39) In the short-term, how do you consider affordability and price stability should be balanced in relation to the pricing of metering services?

40) Do you have any views on how proactive metering replacement programs in Victoria may affect the ability for non-Victorian networks to complete the AEMC's accelerated smart metering rollout program and / or impact deliverability in Victoria?

41) Do you consider any alternative approaches may be more appropriate such as a proactive metering component replacement program, or a delayed start to a proactive metering replacement program (as proposed by AusNet)? If so, please explain why.

42) Do you consider a true-up mechanism should be introduced to ensure customers are protected from unfulfilled forecasts in relation to proactive replacement programs? Why?

43) Do you think that customers that remain on legacy meters should face higher, more cost-reflective price signals (as proposed by AusNet)? If so, please explain why.

44) More generally, do you have any other comments on the Victorian distributors' metering services proposals?

Questions on ancillary network services

45) Do you consider the proposed labour rates and fee-based prices, and the associated increases, to be reasonable?

Questions on public lighting

46) Do you consider AusNet's public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did the network communicate these

potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

47) Do you support AusNet's proposed suite of public lighting services and prices?

48) Do you have any other comments on AusNet's public lighting proposal and their pre-lodgement engagement?

Glossary

Term	Definition
ACS	alternative control services
ADMS	Advanced distribution management systems
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
augex	augmentation capital expenditure
CG	co-ordination group
capex	capital expenditure
CER	consumer energy resources
CESS	capital expenditure sharing scheme
CMS	central management system
CoES	certificate of electrical safety
CPI	consumer price index
CSIS	customer service incentive scheme
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service provider
EBSS	efficiency benefit sharing scheme
ESOO	Electricity Statement of Opportunities
ESV	Energy Safe Victoria
EV	electric vehicle
F&A	framework and approach
GSL	guaranteed service level
ICC	individually calculated customer
ICT	Information and communication technologies
ISP	Integrated System Plan
LED	light emitting diode
LRMC	long run marginal cost

Term	Definition
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulated asset base
REFCL	rapid earth fault current limiter
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RORI	Rate of return instrument
SaaS	software as a service
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
TOU	time of use
TSS	tariff structure statement
UFLS	under frequency load shedding
VCR	value of customer reliability
VNR	value of network resilience