

Final Decision

Energex Electricity

Distribution Determination

2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 5 Capital Expenditure

April 2025

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1	30 April 2025	11

List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) final decision on the distribution determination that will apply to Energex for the 2025–30 period. It should be read with all other parts of the final decision.

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

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 13 – Classification of services

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5 Capital expenditure

Capital expenditure (capex) refers to the money required to build, maintain or improve the physical assets needed to provide standard control services (SCS).¹ Generally, these assets have long lives, and a distributor will recover capex from customers over several regulatory control periods. A distributor's capex forecast contributes to the return of and return on capital building blocks that form part of its total revenue requirement.

Under the regulatory framework, a distributor must include a total forecast capex that it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, maintain the safety, reliability, quality, and security of its network and contribute to achieving targets for reducing Australia's greenhouse gas emissions (the capex objectives).²

We must decide whether or not we are satisfied that this forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand, cost inputs, and other relevant inputs (the capex criteria).³ 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 National Electricity Objective (NEO)).⁴

The *AER's capital expenditure assessment outline* explains our and distributors' obligations regarding capex under the National Electricity Law and Rules (NEL and NER) in more detail.⁵ It also describes the techniques we use to assess a distributor's capex proposal against the capex criteria and objectives. Where relevant we also assess capex associated with emissions reduction proposals taking into account our *Guidance on amended National Electricity Objectives*.⁶

Total capex framework

We analyse and assess capex drivers, programs, and projects to inform our view on a total capex forecast. However, we do not determine forecasts for individual capex drivers or determine which programs or projects a distributor should or should not undertake. This is consistent with our ex-ante incentive-based regulatory framework.

Once the ex-ante capex forecast is established, there is an incentive for distributors to provide services at the lowest possible cost, because the actual costs of providing services will determine their returns in the short term. If distributors reduce their costs, the savings are shared with consumers in future regulatory control periods. This incentive-based framework

¹ These are services that form the basic charge for use of the distribution system.

² NER, cl. 6.5.7(a).

³ NER, cl. 6.5.7(c).

⁴ NEL, ss. 7, 16(1)(a).

⁵ AER, *Capex assessment outline for electricity distribution determinations*, February 2020.

⁶ AER, *Guidance on amended National Energy Objectives*, September 2023.

provides distributors with the flexibility to prioritise their capex program given their circumstances and due to changes in information and technology.

Distributors may need to undertake programs or projects that they did not anticipate during the revenue determination. Distributors also may not need to complete some of the programs or projects proposed if circumstances change, these are decisions for the distributor to make. We consider a prudent and efficient distributor would consider the changing environment throughout the regulatory control period and make decisions accordingly.

Importantly, our decision on total capex does not limit a distributor's actual spending. We set the forecast at a level where the distributor has a reasonable opportunity to recover its efficient costs.

Assessment approach

We provide guidance on our assessment approach in several documents, including the following which are of relevance to this decision:

- AER's Expenditure Forecast Assessment Guidelines⁷
- *Regulatory Investment Test for Distribution and Transmission (RIT-D and RIT-T) Guidelines*⁸
- AER's *Asset Replacement Industry Note*⁹
- AER's *Information and Communication Technologies (ICT) Guidance Note*¹⁰
- AER's *Guidance on amended National Energy Objectives*¹¹

We also had regard to the guiding principles in the AER's *Better Resets Handbook – Towards consumer centric proposals* which encourages networks to develop high quality, well-justified proposals that genuinely reflect consumers' preferences.¹²

Our final decision has been based on the information before us, which includes:

- the distributor's regulatory proposal and accompanying documents and models
- the distributor's responses to our information requests
- stakeholder comments in response to our Issues Paper, our draft decision and Energex's revised proposal
- technical review and advice from our consultant's reports. We engaged EMCa in March 2024 to assist us in reviewing certain aspects of Ergon Energy and Energex's capex

⁷ AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024. The legal requirements under the NEL and the NER that the AER must apply and have regard to when assessing capex are outlined in section 2.1.

⁸ AER, *RIT-T and RIT-D application guidelines 2024*, November 2024.

⁹ AER, *Industry practice application note for asset replacement planning*, January 2019.

¹⁰ AER, *AER publishes guidance on non-network ICT capital expenditure assessment approach*, November 2019.

¹¹ AER, *Guidance on amended National Energy Objectives*, September 2023.

¹² AER, *Better Resets Handbook – Towards consumer-centric network proposals*, December 2021.

proposals; these being Ergon Energy’s overspend in repex and forecast repex, aspects of Ergon Energy and Energex’s forecast augex, Ergon Energy and Energex’s forecast for cyber security. EMCa’s report was released with our draft decision.

5.1 Final decision

Our final decision is to accept Energex’s proposed total forecast capex of \$3134.7 million (\$2024–25) as we are satisfied that it reasonably reflects the capex criteria (that is, we are satisfied it reasonably reflects the prudent and efficient costs, and a realistic expectation of demand, cost inputs and other relevant inputs, required to meet the capex objectives).

We note that we had concerns with Energex’s proposed augmentation expenditure (augex), in particular its clearance program and related reductions to capitalised overheads, and we made modelling adjustments relating to updates to the consumer price index (CPI) and real cost escalation assumptions¹³. This resulted in an alternative forecast of \$3117.9 million (0.5% difference) which we consider is not materially different to Energex’s total capex forecast. Therefore, we are satisfied that Energex’s estimate reasonably reflects the capex criteria.

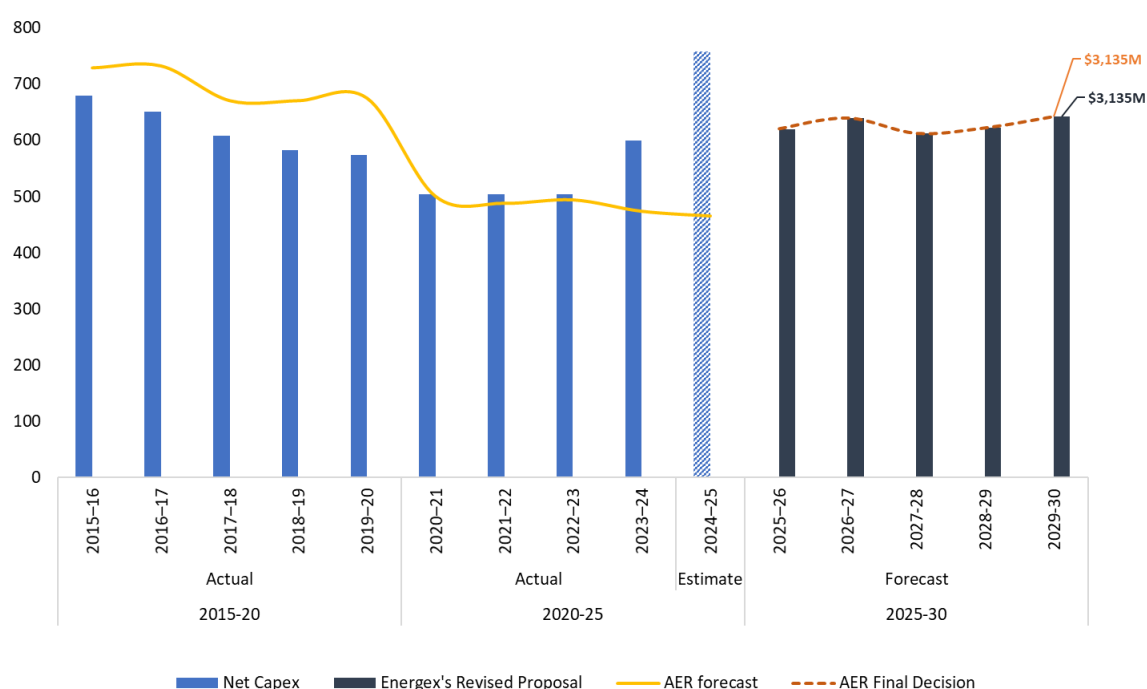
We consider that Energex’s forecast will allow a prudent and efficient service provider in Energex’s circumstances to meet the capex objectives.

5.2 Energex’s revised proposal

Energex’s revised proposal forecast includes \$3,134.7 million (\$2024–25) capex over the 2025–30 period.

Figure 5.1 outlines Energex’s historical capex trend, its proposed forecast for the 2025–30 period, and our final decision. Consistent with our usual practice, the chart presents a time-series of Energex’s net capex.

¹³ In our alternative forecast of total capex we included modelling adjustments relating to updates to the consumer price index (CPI) and real cost escalation assumptions. The net impact of these adjustments increased our alternative estimate by \$1.8 million. However, as our total alternative forecast is not materially different to Energex’s revised proposal, we are satisfied that Energex’s estimate reasonably reflects the capex criteria and hence we have not included any modelling adjustments in our final decision.

Figure 5.1 Energex's historical and forecast capex (\$ million, \$2024–25)

As can be seen in Figure 5.1, Energex had a steady decrease in actual capex until 2022–23. Energex had a higher level of capex in the 2023–24 year and estimates an even higher level in the 2024–25 year relative to the first three years of the 2020–25 period. Energex forecasts this higher level of capex to continue in the 2025–30 period. The forecast capex is 13.9% higher than the current period actual/estimate.

Energex accepted most of the AER's draft decision on capex and updated forecasts for fleet, augex and overheads. Energex has reduced its fleet forecast relative to its initial proposal, but it is still higher than our draft decision forecast. It also increased its proposal for augex by including a new project. Overall, this resulted in its revised proposal forecast being lower than its initial proposal.

5.3 Reasons for final decision

We accept Energex's revised proposal. We are satisfied that Energex's capex estimate represents a total capex forecast that reasonably reflects the capex criteria.

Table 5.1 sets out our final decision for Energex by capex category.

Table 5.1 AER's final decision by capex category (\$ million, \$2024–25)

Capex category	Energex's revised proposal/ AER's final decision
Repex	912.8
Resilience	25.1
Augex	538.6
Connections	320.6
Fleet	181.6
Property	143.3
Cyber security	48.1

Capex category	Energex's revised proposal/ AER's final decision
ICT	195.2
CER integration	54.1
Other non-network	25.2
Capitalised overheads	720.3
Total capex (excluding capcons)	3164.7
less asset disposals	-30.0
Modelling adjustments	
Net capex	3134.7

Source: Energex capex model and AER analysis.

Note: Numbers may not sum due to rounding. We recategorised capex from Energex's revised proposal to align with how we assessed each category. We recategorised \$25.1 million of augex to resilience, and \$48.1 million of ICT to cyber security.

In our draft decision, we noted that Energex's proposal lacked sufficient supporting material to satisfy us that its proposed capex reasonably reflects the capex criteria. In its revised proposal, Energex has provided further justification for both its augex and fleet programs which we did not accept in the draft decision. This additional information has allowed us to better assess the prudence and efficiency of the proposed capex.

Table 5.2 summarises the reasons for accepting Energex's forecast, by capex driver. This reflects the way we have assessed Energex's total capex forecast. A number of capex categories were considered and accepted in our draft decision and are reflected in this table but should be read in conjunction with our draft decision¹⁴. Further detail on our bottom up assessment of augex, which is a key area that changed between our draft decision and our final decision, is contained in Appendix A.

Our findings on each capex driver are part of our broader analysis and should not be considered in isolation. We do not approve an amount of forecast expenditure for each individual capex driver or project/program. However, we use our findings on the different capex drivers to assess a regulated business' proposal as a whole and arrive at a substitute estimate for total capex where necessary. Our decision on total capex does not limit a regulated business' actual spending.

Table 5.2 Summary of our findings and reasons, by capex driver

Driver	Findings and reasons
Repex	We have included Energex's replacement expenditure in the total forecast capex. This was considered and accepted in our draft decision.
Connections	We have included Energex's connections expenditure in the total forecast capex. This was considered and accepted in our draft decision.
Cyber security	We have included Energex's cyber security expenditure in the total forecast capex. This was considered and accepted in our draft decision.
CER integration	We have included Energex's CER integration expenditure in the total forecast capex. This was considered and accepted in our draft decision.

¹⁴ AER, Draft Decision, Energex – Electricity Distribution Determination 2025 to 2030, Attachment 5 Capital Expenditure, September 2024.

Driver	Findings and reasons
Other non-network	We have included Energex's other non-network expenditure in the total forecast capex. This was considered and accepted in our draft decision.
Asset disposals	We have included Energex's asset disposals expenditure in the total forecast capex. This was considered and accepted in our draft decision.
Augex	<p>We have included Energex's augex expenditure forecast of \$538.6 million in the total forecast capex.</p> <p>In our alternative estimate of total forecast capex, we included \$521.6 million for augex. This is \$16.9 million lower than Energex's revised forecast. However, as our total alternative estimate of forecast total capex is not materially different to Energex's revised proposal, we are satisfied that Energex's estimate reasonably reflects the capex criteria.</p> <p><u>Clearance-to-ground and clearance-to-structure</u></p> <p>Having assessed revised augex, we have identified issues with Energex's updated \$46.9 million of augex for clearance-to-ground (CTG) and clearance-to-structure (CTS). This is \$11.5 million (or 19.7%) lower than its initial proposal and \$16.9 million (or 56.3%) higher than our draft decision of \$30.0 million.</p> <p>In our draft decision, we accepted Energex's proposed volumes. However, we did not accept its proposed unit rate as it is 48.4% higher than its historical unit rate. In its revised proposal, Energex updated its CTG and CTS unit rates to align with the actual costs and volumes delivered in 2023-24.</p> <p>Although Energex's revised proposal reflects an improved approach to forecasting unit rates, we still consider this approach is not reasonable. This is because the historical unit rates are volatile and to forecast based on a single year of historical unit rate is not reflective of the likely forecast unit rate.</p> <p>We consider an approach that uses the average historical unit rate from a longer time period would be reasonable. Hence, in our alternative estimate we have maintained our draft decision of \$30.0 million.</p> <p><u>Safety Net program</u></p> <p>We have included Energex's \$217.0 million Safety Net program in developing our alternative estimate of forecast capex. This is because, for the reasons discussed in Appendix A.1, we consider that Energex's adopted approach reflects the intent and regulatory expectations of the Queensland government in relation to the application of the Safety Net targets.</p>
Information and communications technology (ICT)	We have included Energex's information and communications technology expenditure in the total forecast capex. Energex accepted our draft decision on this capex category.
Resilience	We have included Energex's resilience expenditure in the total forecast capex. Energex accepted our draft decision on this capex category.
Fleet	<p>We accept that Energex's revised total expenditure forecast of \$181.6 million would form part of a total capex forecast that reasonably reflects the capex criteria.</p> <p>Our draft decision accepted that an uplift in the forecast period relative to the current period was reasonable but not to the magnitude proposed by Energex. We considered that Energex had not sufficiently justified:</p> <ul style="list-style-type: none"> • Expenditure related to a Full Time Equivalent (FTE) uplift due to reductions in network capex • Expenditure to change its replacement programs for elevated work platforms (EWP) and crane borers (CB). <p>Energex's revised proposal accepted our draft decision position on the FTE uplift and provided further information on the benefits of its proposed changes to its replacement strategy for EWP and CB where there is a move from a 15 to 10-year replacement cycle for some vehicles. While some minor gaps in information remain, our assessment of its</p>

Driver	Findings and reasons
	analysis indicates that the benefits of the current and new strategy are likely to fall within an acceptable range. As a result, we are satisfied that the proposed program has the highest NPV of the options considered and have included it in our forecast for fleet capex.
Property	We have included Energex's property expenditure in the total forecast capex. Energex accepted our draft decision on this capex category.
Capitalised overheads	<p>We have included Energex's capitalised overheads expenditure forecast of \$720.3 million in the total forecast capex.</p> <p>In our alternative estimate of total forecast capex, we included \$718.4 million for capitalised overheads which reflected our reduction in augex. This is \$1.9 million (0.3%) lower than Energex's revised forecast. However, as our total alternative estimate of forecast total capex is not materially different to Energex's revised proposal, we are satisfied that Energex's estimate reasonably reflects the capex criteria.</p> <p>Our draft decision did not accept Energex's approach to calculating capitalised overheads based on a bottom-up build. Its initial method used the most recent year of actual capex and overheads from 2022-23. Use of a single year may potentially bias a forecast, either upwards or downwards. Our draft decision used 3 years of actuals to calculate the overhead rate to smooth out any variations and mitigate any bias. We considered that Energex's approach lacked sufficient supporting information and that it likely overstated its requirement for capitalised overheads.</p> <p>Energex's revised proposal used the AER's standard approach for calculating overheads with the addition of the annual 1% productivity adjustment contained in its initial proposal.¹⁵</p> <p>Our final decision considers Energex's approach suitable to forecast capitalised overheads.</p>
Ex-post review	<p>We are required to provide a statement on whether the roll forward of the regulatory asset base (RAB) from the previous period contributes to the achievement of the capex incentive objective.¹⁶ The capex incentive objective is to ensure that, where the RAB is subject to adjustment in accordance with the NER, only expenditure that reasonably reflects the capex criteria is included in any increase in value of the RAB.¹⁷</p> <p>Where, during the review period,¹⁸ a distributor's capex exceeds its allowance (and therefore the overspending requirement is satisfied),¹⁹ we may reduce the RAB by the amount of capex that we are satisfied does not reasonably reflect the capex criteria.²⁰</p> <p>We have reviewed Energex's capex performance for the 2018–19 to 2022–23 regulatory years. Energex incurred total capex below its regulatory forecast for the ex-post review period. On this basis, the overspending requirement for an efficiency review of past capex is not satisfied.</p>

¹⁵ Energex, Energex - 5.12.01 Capitalised Corporate Overheads Calculations - November 2024 – public.

¹⁶ NER, cl. 6.12.2(b).

¹⁷ NER, cl. 6.4A(a).

¹⁸ NER, cl. S6.2.2A(a1).

¹⁹ NER, cl. S6.2.2A(b).

²⁰ AER, *Capital Expenditure Incentive Guideline*, November 2013, p. 17; and NER, cl. S6.2.2A(f).

A Reasons for decision on key capex categories

A.1 Augmentation Expenditure (augex) – Safety Net

A.1.1 Final decision

We accept that Energex’s revised total expenditure forecast of \$217.0 million for Safety Net projects would form part of a total capex forecast that reasonably reflects the capex criteria.

Energex identified 14 projects which it included as necessary to meet the requirements of the Safety Net targets in its Distribution Authority. This includes all 13 projects assessed in our draft decision and 1 additional project included in the revised proposal.

This is an increase of \$197.7 million from our draft decision where we approved 3 projects (\$19.3 million). These projects were approved because they were required under our interpretation of the Safety Net targets. The remaining 10 projects were not included in our alternative forecast as they were not required under our interpretation and we did not have enough information to conclude if they had a positive net benefit to customers.

As discussed in our draft decision²¹, Energex has adopted an approach of fully restoring supply in urban and rural areas. Specifically, Energex’s adopted approach is that load not supplied must be fully restored within 8 hours in urban areas and 12 hours in rural areas. As set out in our draft decision, we considered Schedule 3 of Energex’s Distribution Authority²² requires Energex to reduce unsupplied load to a maximum of 4MVA within 8 hours for urban areas and to reduce unsupplied load to a maximum of 10MVA within 12 hours for rural areas. As set out in our draft decision, we did not consider that Schedule 3 requires supply to be fully restored within these timeframes.

In coming to our final decision, we considered additional information, including information provided by Energex in its revised proposal and a letter from the Queensland Treasurer to the AER (dated 24 March 2025) regarding the intent of the Safety Net targets.²³ The letter from the Queensland Treasurer stated that Energex’s interpretation of the Safety Net targets was consistent with their intent, being to ensure that all customers have a consistent, basic level of network reliability. After having regard to this further information, we consider that Energex’s adopted approach reflects the intent and regulatory expectations of the Queensland government in relation to the application of the Safety Net targets in accordance with its Distribution Authority. On this basis, we included all the proposed expenditure for Safety Net projects in our forecast.

We note that the way the Safety Net targets are interpreted can have a material impact on the amount of capex required to meet the Safety Net targets. We discuss the interpretation of

²¹ AER, Draft Decision, Energex – Electricity Distribution Determination 2025 to 2030, Attachment 5 Capital Expenditure, September 2024.

²² Department of Energy and Climate Queensland, Energex Distribution Authority, July 2023, Sch. 3.

²³ Queensland Treasury, Queensland Treasurer response to Energex Safety Net, March 2025.

the Safety Net targets and our economic assessment of Energex’s forecast Safety Net program in more detail below.

A.1.2 Energex revised proposal

In Energex’s revised proposal it has included all 13 projects assessed in our draft decision as well as 1 new project (New 33kV Feeder Hays Inlet to Narangba for \$25.4 million) for a total of \$217.0 million.

In the Revised Proposal, Energex disagreed with our interpretation of the Safety Net targets and provided the following statement:

The AER’s interpretation appears to imply there would be no limit to the number of customers that could be immediately left unsupplied following an outage of a single item of plant. Furthermore, it does not include a restoration timeframe for the last remaining 4 MVA, and therefore there is no maximum timeframe to fully restore supply. In our view, this does not align with the intent of the Safety Net Targets, which is to provide a base level of reliability for all customers.

In its revised proposal Energex has also provided additional information to support its interpretation of the Safety Net targets including a letter from Queensland Treasury²⁴ and cost benefit analysis for some projects to justify that they provide a positive benefit to customers.

We have also received submissions from Consumer Challenge Panel (CCP30), Electrical Trades Union of Australia (ETU) and EQL Reset Reference Group (RRG) in response to Energex’s revised proposal.

CCP30 submitted that it agrees with Energex’s interpretation of the safety net requirements but believe Energex is too literal in its interpretation of the requirements as hard limits. They also submit that not enough information has been provided by Energex to assess this expenditure and more consideration to providing robust investments that focus on long term affordability and value should be made. CCP30 supports the AER in challenging this proposal and not approving the full amount, but that there is some scope to increase the amount for Energex’s network augmentation should better information be provided.

ETU submitted that Energex’s proposed safety net related investments are required to meet Energex’s Distribution Authority obligations. The ETU agrees with Energex’s interpretation of the Safety Net requirements.

RRG submitted that it would like to see more extensive engagement from Energex on Safety Net targets and further information from Treasury to give consumers confidence that Energex’s interpretation of Safety Net targets is inconsistent with the AER’s explanation.

A.1.3 Reasons for final decision

Our approach to assessing Energex’s revised Safety Net proposal included:

- Assessing Energex’s additional justification for its interpretation of the Safety Net targets.

²⁴ Energex, Qld Treasury Letter to Energy Queensland - 27112024, November 2024.

- Assessing the additional business cases and NPV model provided to determine if any projects provided a net benefit to consumers.

We have considered Energex’s statement in its revised proposal that it disagrees with the AER’s draft decision interpretation of the Safety Net targets. We sought additional information from the Queensland Treasurer to further clarify the intent of the Safety Net targets and whether Energex’s application was consistent with this intent. The Queensland Treasurer provided a response confirming that Energex’s interpretation is in line with the intent of the Safety Net targets.

We note that the way the Safety Net targets are interpreted has implications on the required expenditure to meet the Safety Net targets. We did an assessment of the business cases and identified 5 projects (\$97.0 million) were required under our draft decision interpretation. This included the 3 we approved in the draft decision and 2 additional projects we have now assessed as having a positive customer benefit. The remaining 9 projects provided no economic benefit, or the customer benefits were overstated or not relevant.

In coming to our final decision, we considered all the additional information provided in response to our draft decision. This includes Energex’s revised proposal, the March 2025 letter from the Queensland Treasurer regarding the Treasury’s intent of the Safety Net targets and submissions from the ETU and CCP30 who broadly agree that Energex’s interpretation should be applied.

The Safety Net target obligations form part of the Distribution Authority issued to Energex by the Queensland Government. We consider that the statement from the responsible Minister, confirming that Energex’s interpretation of the Safety Net targets is consistent with their intent, is relevant to understanding the regulatory obligation imposed on Energex by its Distribution Authority. Having regard to the Queensland Treasurer’s statement, we consider that Energex’s adopted approach reflects the intent and regulatory expectations of the Queensland Government in relation to the application of the Safety Net targets. Therefore, in our final decision, we have decided to apply this interpretation to inform the Safety Net project capex to be included in the total capex forecast.

Given that Energex’s application of the Safety Net targets is deterministic and requires all energy shortfall to be restored within 8 hours for urban areas and 12 hours for rural areas, we have concluded that all 14 projects are required to be included in the total capex forecast. This is because Energex has demonstrated that there is an energy shortfall as part of the business cases for each of the proposed projects.

Shortened forms

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
Augex	Augmentation Expenditure
capex	capital expenditure
CBA	Cost benefit analysis
CCP30	Consumer Challenge Panel, sub-panel 30
CER	customer energy resources
DNSP or distributor	Distribution Network Service Provider
ENA	Energy Networks Australia
ETU	Electrical Trades Union of Australia
EV	electric vehicle
ICT	information and communication technologies
NEL	National Electricity Laws
NEO	National Electricity Objectives
NER	National Electricity Rules
NPV	net present value
NSP	Network Service Provider
opex	operating expenditure
RAB	regulated asset base
repex	replacement expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SCADA	supervisory control and data acquisition
SCS	standard control service