Framework and Approach

AusNet Services transmission determination 2027–32

April 2025

AUSTRALIAN ENERGY REGULATOR

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1 Framework and Approach

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

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. Electricity transmission network service provider AusNet Services is due to submit their next revenue proposal on 31 October 2025, for the period 1 April 2027 to 31 March 2032 (2027–32 regulatory control period). AusNet Services provides both transmission and determination services. For clarity, this paper applies to the transmission services provided by AusNet Services for the 2027– 32 regulatory control period.

The first step in our process to determine efficient prices for electricity transmission service is to publish a Framework and Approach paper (F&A). The F&A sets our approach to key elements of the upcoming determination and facilitates early public consultation on these before businesses prepare and submit their revenue proposal. These elements include:

- Which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.[1] The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long-term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- Our approach to setting efficient expenditure allowances[2] and depreciation for the establishment of the opening regulatory asset base for the upcoming regulatory control period[3].

The F&A that has applied to AusNet Services in the current (2022–27) regulatory control period was published in April 2020. Since then, we have seen significant transition in the energy market and the rules, schemes and guidelines under which we regulate electricity networks. In September 2024, we therefore confirmed that we would review and replace the F&A for AusNet Services.

In March 2025, we released a Preliminary F&A for the 2022–27 period and called for submissions. No submissions were received.

1 NER, cll. 6A.10.1A(b)(1), (2), (3), (4) and (7)

2 NER, cll. 6A.10.1A(b)(5)

3 NER, cll. 6A.10.1A(b)(6)

1.1 Next steps

The table below provides an indicative timeframe for the remaining stages of our transmission determination for AusNet Services. These are subject to change.

Table 1 Indicative timeline for AusNet Services electricity transmission determination

Milestone	Indicative date
AusNet Services submits revenue proposal	October 2025
AER publishes issues paper and holds public forum	December 2025
Submissions on revenue proposal close	February 2026
AER to publish draft transmission determination	June 2026
AER to hold predetermination conference	July 2026
AusNet Services to submit revised revenue proposal to AER	September 2026
Submissions on revised revenue proposal and draft decision close	November 2026
AER to publish transmission determination for regulatory control period	January 2027

2 Incentive schemes

Our F&A for AusNet Services must set out our proposed approach to the application of incentive schemes in the 2027–32 period.

Since we published the F&A for the current 2022–27 period, we have completed reviews of a number of incentive schemes. This allows the application of revised schemes as part of our 2027–32 determination. We propose to apply the following incentive schemes in our transmission determination for AusNet Services in the 2027–32 period:

- Efficiency benefit sharing scheme (EBSS),[4] subject to the considerations set out below, which provides a continuous incentive to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of these between the business and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS),[5] which incentivises efficient capital expenditure (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.
- Service target performance incentive scheme (STPIS).[6] This balances incentives to reduce expenditure with the need to maintain or improve service quality, by providing financial incentives to maintain and improve service performance where consumers are willing to pay for these improvements.
- Demand management incentive allowance mechanism (DMIAM)[7] for transmission, encourages transmission businesses to expand and share their knowledge and understanding of innovative demand management projects that may reduce long term network costs and, consequently, lower prices for consumers.

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

2.1 Efficiency benefit sharing scheme and Capital expenditure sharing scheme

On 30 April 2023, we published a final decision on our review of incentive schemes, including the EBSS and CESS.[8] That review concluded that revisions to the EBSS were not necessary. Given this, and consistent with our general approach, we intend to apply the EBSS to AusNet Services in the 2027−32 regulatory control period if we are satisfied the

4 NER, cl. 6A.10.1(b)(2)

5 NER, cl. 6A.10.1(b)(3)

6 NER, cl. 6A.10.1(b)(1)

7 AER, *Demand management innovation allowance mechanism - Transmission*, May 2021.

8 AER, *Final decision - Review of incentive schemes for networks*, 28 April 2023.

scheme will fairly share efficiency gains and losses between the business and consumers.[9] This will occur only if the opex forecast for the following period is based on AusNet Services' revealed costs.

Our transmission determination for AusNet Services for the 2027−32 regulatory control period will specify if and how we will apply the EBSS.

Our review of incentive schemes resulted in changes to the sharing ratios of the CESS, adopting a tiered approach:

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

We anticipate that a further updated version of the CESS will apply for the 2027–32 regulatory control period. In August 2024, the Australian Energy Market Commission (AEMC) published an amending rule for Managing ISP project uncertainty through targeted ex post reviews.[10] On 21 February 2025, we commenced a review of the Capital Expenditure Incentive Guideline in light of the AEMC rule change.[11] We will release our final updated Capital Expenditure Incentive Guideline by September 2025.

Our final decision is that the CESS will apply to AusNet Services for 2027–32 regulatory period including the version of the CESS that will be set out in the updated Capital Expenditure Incentive Guideline.

2.2 Service target performance incentive scheme

We propose to apply the transmission STPIS to AusNet Services for the 2027–32 regulatory period. We note for the current 2022–27 regulatory control period, version 5 of the STPIS applies to AusNet Services.

In December 2023 we published an issues paper to commence our review of version 5 of the transmission STPIS. We published proposed amendments and an accompanying explanatory statement for consultation in November 2024.[12] We recently completed our review of all components of the STPIS, with version 6 of the STPIS coming into effect from 17 April 2025.[13] Our final decision is to apply the updated version of the transmission STPIS (version 6) for the 2027–32 regulatory control period.

The amendments to the STPIS set out in version 6 are as follows:

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9 NER, cl. 6a.6.5(a)

10 AEMC, *Managing ISP project uncertainty through targeted ex post reviews: Final determination*, 1 August 2024.

11 AER, *Capital Expenditure Incentive Guideline Review - Consultation Paper*, 21 February 2025.

12 AER, *Review of electricity transmission service standards incentive schemes - Proposed Amendments*, 6 November 2024.

13 AER, *Electricity Transmission Service Target Performance Incentive Scheme Version 6*, 17 April 2025.

- **Market impact component (MIC)** – Suspend the application of the MIC. The AER will explore developing an effective alternative by establishing a working group including Australian Energy Market Operator and key stakeholders.
- **Network capability component (NCC)** – We have streamlined the application of the NCC, to:
  - Remove the Network Capability Incentive Action Plan and link the NCC to a TNSP's Transmission Annual Planning Report
  - Better align incentive payments with revenue reductions.
- **Service component** – Remove rounding from the loss of supply frequency parameter so that targets can be fractions of an event.

A detailed explanation of the reasons for our final positions can be found in our explanatory statement.

2.3 Demand management incentive allowance mechanism

On 27 May 2021, we published the DMIAM for electricity transmission networks.[14] A DMIAM for transmission encourages transmission businesses to expand and share their knowledge of innovative demand management projects that may reduce long term network costs and, consequently, lower prices for consumers.

We applied the DMIAM to AusNet Services for the 2022–27 regulatory control period.[15]

We note AusNet Services intends to propose a DMIAM scheme to apply in the 2027–32 regulatory control period.[16]

Our final decision is to apply a DMIAM to AusNet Services for the 2027–32 regulatory control period.

2.4 Small-scale incentive scheme

The NER provide that we may develop small-scale incentive schemes (SSIS).[17] We note AusNet Services has reserved its position to apply an SSIS should one be developed in the lead up to the 2027–32 regulatory proposal.[18]

AusNet Services has not yet proposed a detailed incentive design developed in conjunction with its customers. As such, our final decision is to not apply the SSIS to AusNet Services for the 2027–32 regulatory control period.

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14 AER, *Demand management innovation allowance mechanism - Transmission*, May 2021.

15 AER, *Final decision - AusNet Services transmission 2022-27 - Overview*, 28 January 2022, p. 34, pp. 40-41.

16 AusNet Services, *Letter to AER on Framework and Approach*, 23 July 2024.

17 NER, cl. 6A.7.5.

18 AusNet Services, *Letter to AER on Framework and Approach*, 23 July 2024.

3 Expenditure forecast assessment guideline

Our F&A for AusNet Services sets out our proposed approach to the application of our Expenditure Forecast Assessment Guideline (the EFA guideline) for the 2027–32 regulatory control period.[19]

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

- models for assessing proposed replacement and augmentation capex
- benchmarking (including broad economic techniques and more specific analysis of expenditure categories)
- methodology, governance and policy reviews
- predictive modelling and trend analysis
- cost benefit analysis and detailed project reviews.[20]

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

We applied the EFA guideline in our assessment of AusNet Services' proposal for the current, 2022–27 period. On 16 October 2024, we released an update to the EFA guidelines for Transmission and Distribution, to accommodate the addition of the emissions reduction objective to the national energy objectives. Our final decision is that we will apply the updated EFA guideline in our assessment of the AusNet Services proposal for the 2027–32 regulatory control period.

The incorporation of an emissions reduction element into the NEO[21] will impact the framework and guidelines we use to assess regulatory proposals. This is something that we, and transmission businesses, will need to be mindful of as we progress through the 2027–32 determinations.

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19 AER, *Expenditure forecast assessment guideline*, 29 November 2013 (updated 16 October 2024).

20 AER, *Explanatory statement - expenditure forecast assessment guideline*, 29 November 2013.

21 AER, *Guidance on amended National Energy Objectives*, 28 September 2023.

4 Depreciation to establish the opening RAB

Our F&A for AusNet Services must set out whether depreciation for establishing the opening RAB for the 2032–37 regulatory control period, commencing 1 April 2032, is to be based on actual or forecast capital expenditure.

As part of the roll forward methodology, when the RAB is updated from forecast capex to actual capex at the end of a regulatory control period, it is also adjusted for depreciation. The depreciation we use to roll forward the RAB can be based on either:

- the actual as-commissioned capex during the regulatory control period (actual depreciation). We roll forward the RAB based on actual capex less the depreciation on the actual capex; or
- the forecast as-commissioned capex approved for the regulatory control period (forecast depreciation). We roll forward the RAB based on actual capex less the depreciation on the forecast capex approved for the regulatory control period.

AusNet Services is currently subject to the CESS and, as set out in section 2.1 above, we propose to continue to apply the CESS in the 2027–32 period. We are satisfied that the incentive provided by the application of the CESS, in combination with the use of forecast depreciation and our other ex-post capex measures, would be sufficient to achieve the capex incentive objective. Our final position is therefore to continue to use the forecast depreciation approach to establish the RAB at the commencement of the 2032–37 regulatory control period for AusNet Services.[22]

[22] NER, cll. 6A.10.1A(b)(6).

Glossary

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
EFA	expenditure forecast assessment guideline
F&A	framework and approach paper
MAR	maximum allowed revenue
MIC	market impact component
NCC	network capability component
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
opex	operating expenditure
RAB	regulatory asset base
STPIS	service target performance incentive scheme
SSIS	small scale investment scheme
TNSP	transmission network service provider