# Draft decision

## AusNet Services, Jemena, CitiPower, Powercor and United Energy electricity distribution determinations

1 July 2026 – 30 June 2031

**Attachment 12 – Control mechanisms**

**September 2025**

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

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# 12 Control mechanisms

Control mechanisms impose limits over the prices of direct control services (standard and alternative control services) and/or the revenues that distribution network service providers (distributors) can recover from customers for these services. For standard control services, the National Electricity Rules (NER) require the control mechanism be of the prospective CPI–X form (or some incentive-based variant).[1]

The forms of the control mechanisms that will apply to a distribution determination and the formulae that give effect to those control mechanisms are considered during the framework and approach (F&A) stage. There are limited circumstances where the AER may depart from the control mechanisms set out in the F&A paper.[2] For example, we can only depart from the formulae if we consider there has been a material change in circumstances.

This attachment discusses for the Victorian distributors[3]:

- the form and formulae of the control mechanisms for standard control services[4]
- the form and formulae of the control mechanisms for alternative control services[5]
- how compliance with the control mechanisms is to be demonstrated, including the mechanism through which the distributors will recover distribution revenues and account for revenue under or over recovery[6]
- how the distributors are to report on their recovery of designated pricing proposal charges (largely from transmission networks) and jurisdictional scheme amounts, including adjustments for under or over recovery of these amounts[7]
- other mechanisms that support the control mechanisms and compliance with regulatory settings.

We apply the mechanisms addressed in this attachment, including all related formulae and interpretations, through our standardised annual pricing models.

## 12.1 Draft decision

Our draft decision for the Victorian distributors is as follows:

- The form of control mechanism for standard control services is a revenue cap. Section 12.4 provides our draft decision including the revenue cap formulae for standard control services (Figure 12.1).

1 NER, cl. 6.2.6(a).
2 NER, cll. 6.12.3(c) and (c1).
3 For the avoidance of doubt these are AusNet Services, Jemena, CitiPower, Powercor and United Energy.
4 NER, cl. 6.12.1(11).
5 NER, cl. 6.12.1(12).
6 NER, cl. 6.12.1(13).
7 NER, cll. 6.12.1(19) and (20).

- The form of control mechanism for alternative control services – metering services is a revenue cap. Section 12.5.1 provides our draft decision including the revenue cap formulae for metering services (Figure 12.2).
- The form of control mechanism for all other alternative control services is a price cap. Section 12.5.2 provides our draft decision which includes:
  - The price cap formulae for fee-based ancillary network services and public lighting services (Figure 12.3Figure 12.3).
  - The price cap formulae for quoted ancillary network services (Figure 12.4).
- The mechanism and formulae to demonstrate compliance with the side constraint for standard control services are provided in Appendix A (Figure A.1).
- The mechanism and formulae to demonstrate compliance with the side constraint for metering services are provided in Appendix A (Figure A.2).
- The mechanisms to demonstrate compliance with the revenue cap for standard control services are the unders/overs statement and account. These mechanisms are provided in Appendix B.
- The mechanisms to demonstrate compliance with the revenue cap for metering services are the unders/overs statement and account. These mechanisms are provided in Appendix B.
- The mechanisms to demonstrate compliance with reporting of designated pricing proposal charges and jurisdictional scheme amounts are the relevant unders/overs statements and accounts. These mechanisms are provided in Appendix B.
- The templates for demonstrating compliance with the revenue caps, side constraints, and pass-through of designated pricing proposal charges and jurisdictional scheme amounts using these mechanisms, as well as demonstrating compliance with the price caps for alternative control services are the standardised pricing models. These templates are addressed in Appendix C.
- Other rules and notes relating to the demonstration of compliance within these mechanisms, including rounding, are provided in Appendix D.

## 12.2 Overview of proposals

The Victorian distributors' proposals applied the form of control mechanisms and the formulae to give effect to those mechanisms as set out in the F&A paper.[8] The Victorian

[8] AusNet Services, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, pp. 380–384; Jemena, *JEN – Att 04-02 Price control mechanisms*, January 2025, pp. 1–6; CitiPower, *CP ATT 1.01 – SCS revenue and control mechanism*, January 2025, pp. 2, 11–12; CitiPower, *CP BUS 11.01 – Metering*, January 2025, pp. 40, 45–46; CitiPower, *CP ATT 11.01 – Public lighting*, January 2025, p. 8; CitiPower, *CP ATT 11.02 – Ancillary network services*, January 2025, pp. 3, 11; Powercor, *PAL ATT 1.01 – SCS revenue and control mechanism*, January 2025, pp. 2, 10–11; Powercor, *PAL BUS 12.01 – Metering*, January 2025, pp. 40, 45–46; Powercor, *PAL ATT 12.01 – Public lighting*, January 2025, p. 8; Powercor, *PAL ATT 12.02 – Ancillary Network Services*, January 2025, pp. 3, 11; United Energy, *UE ATT 1.01 – SCS revenue and control mechanism*, January 2025, pp. 2, 10–11; United Energy, *UE BUS 12.01 – Metering*, January 2025, pp. 40, 45–46; United Energy, *UE ATT 12.01 – Public lighting*, January 2025, p. 8; United Energy, *UE ATT 12.02 – Ancillary Network Services*, January 2025, pp. 3, 10; AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024 pp. 10–15.

distributors proposed varying definitions for the margin and tax components of the price cap formulae for quoted services:

- AusNet proposed the margin component be equal to the nominal vanilla weighted average cost of capital (WACC), applied to labour, contractor services and materials; and that the tax component be equal to tax costs arising from the provision of the service to a customer, net of depreciation of any capital contribution.[9]
- Jemena proposed the margin component be 6%, applied to labour, contractor services and materials; and that the tax component be a fixed 30%.[10]
- CitiPower, Powercor and United Energy did not propose any definition for the margin or tax components.[11]

In our issues paper, we requested feedback on whether the current form of control mechanism for standard control services was appropriate. This was in response to the uncertainty in components of the Victorian distributors' proposals. We received a collective submission from the Victorian distributors on this request, mostly rejecting our ability to consider such a change at this point.[12] While we do not agree with all the arguments made in the submission from the Victorian distributors, our draft decision does not further consider any change to the current form of control mechanism, the formulae, or any part thereof relating to this. We also received a submission from a United Energy customer, Kieran Donoghue, who noted that the AER is best placed to consider whether any adjustments to the form of control are appropriate to manage demand uncertainty.[13]

## 12.3 Assessment approach

Our approach to assessing the form of control mechanisms is unchanged from our final F&A, which had regard to the requirements set out in the NER.[14]

The final F&A sets the form of control mechanism and binds our determination. However, some parameters of the formulae were left open so they can be better defined in our determination.[15]

We may only make changes to the formulae specified in the F&A where we are satisfied that there has been a material change in circumstances.[16] If we are satisfied that a material

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9 AusNet Services, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, p. 384.

10 Jemena, *JEN – Att 04-02 Price control mechanisms*, January 2025, p. 6.

11 CitiPower, *CP ATT 11.02 – Ancillary network services*, January 2025, p. 11; Powercor, *PAL ATT 12.02 – Ancillary Network Services*, January 2025, p. 11; United Energy, *UE ATT 12.02 – Ancillary Network Services*, January 2025, p. 10.

12 AusNet Services, CitiPower, Jemena, Powercor, and United Energy, *Victorian electricity distribution businesses – Submission – Victorian electricity distribution proposals 2026–31*, May 2025.

13 Kieran Donoghue, *Donoghue, Kieran – Submission û United Energy electricity distribution proposal 2026–31*, June 2025 pp. 1–2.

14 NER, cll. 6.2.5(c) and (d).

15 AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, pp. 10–15.

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

change in circumstances has occurred, then we would either propose changes or consider the merits of proposed changes to the formulae as relevant.

Consistency of regulatory arrangements for similar services is a matter the AER must have regard to when considering control mechanisms as described in the NER. [17] We consider there are benefits in maintaining a consistent approach to the control mechanisms across distributors within the same jurisdiction and across jurisdictions where possible, subject to specific circumstances and new information that becomes available over time. The benefits of consistency in approach include accessibility for stakeholders, and the ability to benchmark and report.

## 12.4 Draft decision for standard control services

The following sets out our draft decision on the control mechanism formulae for standard control services and provides further discussion of the parameters of the relevant control mechanism formulae. It also sets our decision in relation to:

- deliberately under-recovered revenue
- unpaid network charges from retailer of last resort events
- the reporting of designated pricing proposal charges
- the reporting of jurisdictional scheme amounts
- the rounding of inputs in annual pricing proposals.

### 12.4.1 Control mechanism formulae for standard control services

Our draft decision on the formulae that give effect to the standard control services control mechanism is to maintain the formulae set out in the final F&A.[18] Figure 12.1sets out revenue cap formulae and definitions for variables for standard control services.

17 NER, cll. 6.2.5(c)(4) and (d)(4).

18 AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 10.

## Figure 12.1 Revenue cap formulae for standard control services

| Formula | Equation | where |
|---|---|---|
| 1. | $TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$ | $i = 1, \dots, n$<br>$j = 1, \dots, m$<br>$t = 1, 2, 3, 4, 5$ |
| 2. | $TAR_t = AAR_t + I_t + B_t + C_t$ | $t = 1, 2, 3, 4, 5$ |
| 3. | $AAR_t = AR_t$ | $t = 1$ |
| 4. | $AAR_t = AAR_{t-1} \times (1 + \Delta CPI_t) \times (1 - X_t)$ | $t = 2, 3, 4, 5$ |
| 5. | $B_t = b_t + A_t$ | $t = 1, 2, 3, 4, 5$ |
| 6. | $b_t = -O_t \times (1 + WACC_t)^{0.5}$ | $t = 1, 2, 3, 4, 5$ |
| 7. | $A_t = a_t^1 + a_{t-1}^2 \times (1 + WACC_t) + a_{t-2}^3 \times (1 + WACC_{t-1}) \times (1 + WACC_t)$ | $t = 1, 2, 3, 4, 5$ |
| 8. | $WACC_t = (1 + rvWACC_t) \times (1 + CPI_t) - 1$ | $t = 1, 2, 3, 4, 5$ |

where:

| Variable | Represents |
|---|---|
| $t$ | the relevant regulatory year, with t = 1 being the 2026–27 financial year. |
| $TAR_t$ | the total annual revenue for year t, calculated as per formula 2 above. |
| $p_t^{ij}$ | the price of component 'j' of tariff 'i' for year t. |
| $q_t^{ij}$ | the forecast quantity of component 'j' of tariff 'i' for year t. |
| $AR_t$ | the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t. |
| $AAR_t$ | the adjusted annual smoothed revenue requirement for year t, calculated as per formulae 3 and 4 above. |
| $I_t$ | the sum of incentive scheme adjustments for year t. Where applicable, incorporates revenue adjustments relating to the outcomes of:[19]<br>• the service target performance incentive scheme (STPIS) (S-factor) in relation to regulatory year t-2<br>• the demand management incentive scheme (DMIS) in relation to regulatory year t-2<br>• the demand management innovation allowance mechanism (DMIAM) relating to the 2021–26 regulatory control period to be applied in regulatory year t = 2 only<br>• the customer service incentive scheme (CSIS) (H-factor) in relation to regulatory year t-2<br>• the export service incentive scheme (ESIS) (E-factor) in relation to the regulatory year t-2<br>• the fire-start incentive scheme (F-factor) in relation to the regulatory year t-3 |

[19] Incentive schemes listed may not apply to all distributors and are listed for consistency across the NEM.

| Variable | Represents |
|---|---|
| | • any other related incentive schemes as applicable that are to be applied in year t. |
| $B_t$ | the sum of annual adjustment factors for year t, calculated as per formula 5 above. It includes:<br>• the true-up of any under or over recovery of actual revenue (b factor) collected through distribution use of system (DUoS) charges calculated using the method outlined in formula 6.<br>• any other bespoke adjustments the AER deems necessary (A factor). These include but are not limited to: residuals of jurisdictional scheme amounts upon cessation, applicable licence fee payments, or other true-ups not provided for elsewhere. These adjustments will apply the time value of money where appropriate, calculated as per formula 7 above. |
| $C_t$ | the approved pass-through amounts (positive or negative) for year t, as determined by the AER. It also includes any approved annual or end of period adjustments for year t. |
| $\Delta CPI_t$ | the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) All Groups, Weighted Average of Eight Capital Cities[20] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025. |
| $X_t$ | the X factor in year t, incorporating annual PTRM updates for the trailing cost of debt. |
| $b_t$ | the true-up for the balance of the DUoS unders and overs account in year t, calculated as per formula 6 above. |
| $O_t$ | the opening balance of the DUoS unders and overs account in year t as calculated by the method in Appendix B. |
| $WACC_t$ | the approved weighted average cost of capital (WACC) used in regulatory year t in the DUoS unders and overs account in Appendix B. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money. |
| $A_t$ | the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above. |
| $a_t^1$ | the bespoke adjustment '1' for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years and is not intended to be limited to these adjustments. |
| $rvWACC_t$ | the real vanilla WACC provided in the annually updated PTRM for year t. |

## 12.4.2 Definition of formulae parameters

The final F&A stated that we would define the I, B, C and X factors in our draft decision.[21] These definitions are as follows:

[20] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

[21] AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 11.

- I factor: This adjustment will continue to adjust revenue for applicable incentive schemes. It will be the sum of any STPIS, DMIS, DMIAM, CSIS, ESIS, and F-factor payments as well as any other future applicable incentive schemes.[22] For avoidance of doubt, this excludes the efficiency benefit sharing scheme and the capital expenditure sharing scheme payments.
- B factor: The adjustment will continue to include true-ups for any under- or over-recovery of revenue. We have included a component to this definition to include any other bespoke adjustments that the AER may specify, or that currently exist (for example residuals of jurisdictional scheme amounts upon cessation – addressed in Appendix B).
- C factor: This adjustment will continue to apply to cost pass-throughs. This includes those that are distributor-initiated as well as Retailer of Last Resort (ROLR) cost recovery scheme distributor payment determinations, made as a result of cost recovery applications by retailers in the ROLR program. These distributor payment determinations are deemed to be a regulatory change positive pass-through event for the purposes of the NER.[23]
- X factor: This adjustment will continue to apply the real price path of our determinations and will continue to incorporate adjustments to the PTRM for the trailing cost of debt, contingent projects, and cost pass-throughs.[24]

Overall, we did not make major changes to the definitions for these revenue adjustments. However, in the F&A we did make some changes to the presentation of the formulae and the definition of the B factor compared to the 2021–26 period. Previously the definition of the B factor included a formula to calculate the true-up for actual DUoS revenues in year t (b factor). We have changed this presentation by adding it as formula 6 in Figure 12.1.

As part of our change to the definition of the B factor, we also added a catch-all A factor which includes all bespoke adjustments agreed upon by the AER and the distributor. This includes adjustments for the transfer of jurisdictional scheme true-ups when a jurisdictional scheme ends without any other such scheme being in operation as introduced in the recent 2025–30 determinations (this is addressed further in Appendix B of this draft decision), and other payments that are not captured anywhere else (e.g. licence fees).

### 12.4.3 Deliberately under-recovered revenue

We accept there are times when distributors may decide to deliberately recover less than their allowed revenue. This contrasts with unintentional under recovery due to a clerical error or a natural variation between forecast quantities of a service offered and actual quantities achieved. In the event of a deliberate under-recovery, this revenue will be discounted from revenue variances in the unders and overs statements and by extension will therefore subsequently not be allowed to be recovered from customers in future years, i.e. it will not increase the total allowable revenue in future years. More detail on how this is accounted for in the unders and overs statements is provided in Appendix B.

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22 Incentive schemes listed may not apply to all distributors and are listed for consistency across the NEM.

23 National Energy Retail Law, s. 167(2).

24 Cost pass-throughs can be applied through either the X factor (usually when it impacts the regulatory asset base) or the C factor. Our cost pass-through determinations will note how it is to be applied.

### 12.4.4 Unpaid network charges from retailer of last resort events

During the 2021–26 period, we have seen an increase in retailer of last resort (ROLR) events. These events generally involve the insolvency of a retailer, resulting in an unpaid balance of network charges that are not recovered from that retailer.

In such events, distributors can recover these amounts through a cost pass-through. However, due to the substantial number of qualifying cost pass-through events in recent years, we have introduced a line item in the unders and overs statement to account for these events (see Table B.1 in Appendix B). This removes the administrative burden to both distributors and the AER of a cost pass-through application. We consider the recovery of these amounts to be minor in nature.

### 12.4.5 Side constraint mechanism

For standard control services, the NER provides for additional consumer protections through the operation of a side constraint on tariffs.[25] In general terms, this mechanism operates to ensure that any annual increases in revenues for a particular tariff class do not exceed increases provided under the control mechanism by more than 2%.

The specific requirement is that the expected weighted average revenue that may be recovered from a tariff class must not exceed the corresponding expected weighted average revenue for the preceding year by more than the permissible percentage.[26] In accordance with the NER, the permissible percentage increase is the greater of CPI–X plus 2 per cent or CPI plus 2 per cent.[27] The NER requires us to adjust the permissible percentage to ignore the recovery of certain revenues, including cost pass through amounts, incentive schemes, capital expenditure reopeners, and revocation and substitution of determinations, and to remove (disregard) their impact for determining compliance with the side constraints.[28]

Our draft decision is to apply the revised side constraint mechanism which we developed as part of our annual pricing process review.[29] The key changes to the side constraint mechanism in comparison to the 2021–26 period are:

- including a Q factor in the mechanism for changes in prices attributable to movements in quantities from the preceding year
- including a D factor in the mechanism to ensure the tariff class revenues are comparable to the CPI–X plus 2 per cent threshold.

The formulae that give effect to this mechanism are set out in Appendix A.

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25 NER, cl. 6.18.6.

26 NER, cl. 6.18.6.

27 NER, cl. 6.18.6(c).

28 NER, cl. 6.18.6(d).

29 AER, *Annual pricing process review – Side constraint mechanism – Final position paper*, November 2022.

### 12.4.6 Reporting on designated pricing proposal charges

We must decide how distributors will report on the recovery of designated pricing proposal charges for each year of the 2026–31 period and how to account for any under or over recovery of revenue associated with those charges.[30]

We apply a mechanism, set out in Appendix B, to facilitate this reporting and account for the annual true-up of under and over recovery of revenue. This approach is similar to the distribution revenue unders and overs mechanism and is consistent with the NER requirements.[31] It is also consistent with the approach applied to distributors in other jurisdictions.

### 12.4.7 Reporting on jurisdictional scheme amounts

We must decide how distributors will report on the recovery of jurisdictional scheme amounts for each year of the 2026–31 period and how to account for any under or over recovery of revenue associated with those charges.[32]

We apply a mechanism, set out in Appendix B, to facilitate this reporting and account for the annual true-up of under and over recovery of revenue. This approach is similar to the distribution revenue under and over recovery mechanism and is consistent with the NER requirements.[33] It is also consistent with the approach applied to distributors in other jurisdictions.

### 12.4.8 Rounding of inputs in annual pricing proposal process

When reporting on compliance as part of the annual pricing proposal process each year of the 2026–31 period, we require that certain calculation inputs be used on an unrounded basis while others may be used on a rounded basis. The process for rounding and the specific inputs to be rounded are detailed in Appendix D.

## 12.5 Draft decision for alternative control services

The following sets out our draft decision on the control mechanism formulae for alternative control services and provides further discussion of the parameters of the relevant control mechanism formulae.

### 12.5.1 Control mechanism formulae for revenue-capped alternative control services

Our draft decision on the formulae that give effect to the control mechanism is to maintain the formulae set out in the final F&A.[34] Figure 12.2 sets out revenue cap formulae and definitions for variables for metering services.

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30 NER, cl. 6.12.1(19).

31 NER, cl. 6.18.7.

32 NER, cl. 6.12.1(20).

33 NER, cl. 6.18.7A.

34 AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 12.

## Figure 12.2 Revenue cap formulae for metering services

| Formula | Equation | where |
|---|---|---|
| 1. | $\mathrm{TARM}_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$ | $i = 1, \ldots, n$<br>$j = 1, \ldots, m$<br>$t = 1, 2, 3, 4, 5$ |
| 2. | $\mathrm{TARM}_t = \mathrm{AAR}_t + B_t + C_t$ | $t = 1, 2, 3, 4, 5$ |
| 3. | $\mathrm{AAR}_t = \mathrm{AR}_t$ | $t = 1$ |
| 4. | $\mathrm{AAR}_t = \mathrm{AAR}_{t-1} \times (1 + \Delta\mathrm{CPI}_t) \times (1 - X_t)$ | $t = 2, 3, 4, 5$ |
| 5. | $B_t = b_t + A_t$ | $t = 1, 2, 3, 4, 5$ |
| 6. | $b_t = -O_t \times (1 + \mathrm{WACC}_t)^{0.5}$ | $t = 1, 2, 3, 4, 5$ |
| 7. | $A_t = a_t^1 + a_{t-1}^2 \times (1 + \mathrm{WACC}_t) + a_{t-2}^3 \times (1 + \mathrm{WACC}_{t-1}) \times (1 + \mathrm{WACC}_t)$ | $t = 1, 2, 3, 4, 5$ |
| 8. | $\mathrm{WACC}_t = (1 + \mathrm{rvWACC}_t) \times (1 + \mathrm{CPI}_t) - 1$ | $t = 1, 2, 3, 4, 5$ |

where:

| Variable | Represents |
|---|---|
| $t$ | the relevant regulatory year, with t = 1 being the 2026–27 financial year. |
| $\mathrm{TARM}_t$ | the total annual revenue for metering services for year t, calculated as per formula 2 above. |
| $p_t^{ij}$ | the price of component 'j' of tariff 'i' for year t. |
| $q_t^{ij}$ | the forecast quantity of component 'j' of tariff 'i' for year t. |
| $\mathrm{AR}_t$ | the annual smoothed revenue requirement for metering services in the metering PTRM for year t. |
| $\mathrm{AAR}_t$ | the adjusted annual smoothed revenue requirement for metering services for year t, calculated as per formulae 3 and 4 above. |
| $B_t$ | the sum of annual adjustment factors for year t, calculated as per formula 5 above. It includes:<br>• the true-up of any under or over recovery of actual revenue (b factor) collected through metering charges calculated using the method outlined in formula 6.<br>• any other bespoke adjustments the AER deems necessary (A factor). These adjustments will apply the time value of money where appropriate, calculated as per formula 7 above. |
| $C_t$ | the approved metering pass-through amounts (positive or negative) for year t, as determined by the AER. It also includes any approved annual or end of period adjustments for year t. |

| Variable | Represents |
|---|---|
| $\Delta CPI_t$ | the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[35] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025. |
| $X_t$ | the X factor in year t, incorporating annual adjustments to the metering PTRM for the trailing cost of debt. |
| $b_t$ | the true-up for the balance of the metering unders and overs account in year t, calculated as per formula 6 above. |
| $O_t$ | the opening balance of the metering unders and overs account in year t as calculated by the method in Appendix B. |
| $WACC_t$ | the approved WACC used in regulatory year t in the metering unders and overs account in Appendix B. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money. |
| $A_t$ | the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above. |
| $a_t^1$ | the bespoke adjustment '1' for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years and is not intended to be limited to these adjustments. |
| $rvWACC_t$ | the real vanilla WACC provided in the annually updated PTRM for year t. |

#### 12.5.1.1 Definition of formulae parameters

The final F&A stated that we would define the B, C and X factors in our draft decision.[36] These definitions are as follows:

- B factor: The adjustment will continue to include true-ups for any under- or over-recovery of metering revenue. We have included a component to this definition to include any other bespoke adjustments that the AER may specify.
- C factor: This adjustment will continue to apply to cost pass-throughs, however we consider the cost pass-through framework as it applies to metering services needs defining. We discuss this in detail in section 12.5.1.2.
- X factor: This adjustment will continue to apply the real price path of our determinations and will continue to incorporate adjustments to the metering PTRM for the trailing cost of debt and cost pass-throughs.[37]

Overall, we did not make major changes to the definitions for these revenue adjustments. However, in the F&A we did make some changes to the presentation of the formulae and the definition of the B factor compared to the 2021–26 period. Previously the definition of the B

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35 If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

36 AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 13.

37 Cost pass-throughs can be applied through either the X factor (usually when it impacts the regulatory asset base) or the C factor. Our cost pass-through determinations will note how it is to be applied.

factor included a formula to calculate the true-up for actual metering revenues in year t (b factor). We have changed this presentation by adding it as formula 6 in Figure 12.2.

As part of our change to the definition of the B factor, we also added a catch-all A factor which includes all bespoke adjustments agreed upon by the AER and the distributor.

#### 12.5.1.2 Cost pass-through mechanism

The NER provides a cost pass-through framework for standard control services.[38] While a cost pass-through adjustment has been included in the control mechanism for metering services, it has not historically been used. To date, the existing framework for standard control services has been applied to metering but the process defined by the NER has not been fit for use for metering. Barriers to use of this framework for metering include the administrative burden of using the standard control service cost pass-through framework for relativity smaller metering expenditure amounts and ambiguity around materiality thresholds. On materiality for example, there is a question of whether the threshold is greater than 1% of the standard control service annual revenue requirement or the metering annual revenue requirement.

The intention of the standard control service cost pass-through framework is to enable a distributor to recover the costs of defined yet unpredictable, high-cost events that are outside the control of a distributor (and not built into our distribution determination).

We consider that the same intent would likely also apply for metering services, particularly given these services operate under a revenue cap and have a similar control mechanism to standard control services. Further, for metering services with emerging technologies and policies, some changes may also be unforeseen at the time of our final decision. This is evidenced by there being some costs, such as those stemming from potential regulatory changes during the 2026–31 period, which we consider are not appropriate to be included in allowed revenues in the determinations as the regulatory changes are yet to be finalised. At the time of our draft decisions, we envisage that these may include costs to support type 8 and 9 metering services – in the case where legislation subsequently makes them eligible to be included within the metering services classification.

To reduce administrative burden, we propose to formalise any proposed cost pass-through amounts for metering services in the annual pricing process. Distributors should engage with us as early as possible on any proposed cost pass-through. Prior to submitting their annual pricing proposal, and no later than the submission of a preliminary pricing proposal under our pre-lodgement engagement process (see Appendix C), we consider the distributors would need to submit to the AER:

- A detailed description of the proposed cost pass-through, including the driver of the costs, why they could not be considered at the time of determination (e.g. legislation was not in place), justification that the costs are not already accounted for in the determination, and demonstration that these costs are unavoidable.

[38] NER cl. 6.6.1.

- The proposed cost pass-through amounts across opex and/or capex, including a revised version of the final decision metering expenditure model and PTRM (where applicable), and detail on how the costs have been derived and are justified.
- Demonstration that the resulting cost pass-through amounts are material, being more than 1% of the adjusted annual smoothed revenue requirement for metering services for the relevant years ($AAR_t$ in Figure 12.2). Consistent with standard control services, and the thresholds established in the NER, we consider the 1% materiality threshold is appropriate but clarify that this is in relation to the metering annual revenue requirement.
- Demonstration of any stakeholder engagement undertaken and how this has been taken into account in the proposed cost pass-through.

We seek feedback on this proposed approach to formalise proposed cost pass-through amounts for metering services. In particular, whether it is appropriate to recover these costs in this way (via the annual pricing process) and the information we propose be provided by distributors for consideration of any cost pass through application. For the avoidance of doubt, this only relates to metering services and does not impact the cost pass-through framework that applies to standard control services, which is defined by the NER and discussed in Attachment 4.

#### 12.5.1.3 Deliberately under-recovered revenue

Consistent with our approach for the standard control services revenue cap, deliberate under-recoveries of revenue will be discounted from revenue variances in the unders and overs statements and by extension will therefore subsequently not be allowed to be recovered from customers in future years. That is, it will not increase the total allowable revenue in future years. More detail on how this is accounted for in the unders and overs statements is provided in Appendix B.

#### 12.5.1.4 Unpaid network charges from retailer of last resort events

Consistent with our approach for the standard control services revenue cap, we have introduced a line item in the unders and overs statement to account for unpaid network charges resulting from ROLR events (see Table B.1 in Appendix B). We consider the recovery of these amounts to be minor in nature.

#### 12.5.1.5 Side constraint mechanism

Unlike standard control services, the NER does not provide for a side constraint applicable to metering services. However, consistent with our historical approach, we consider it appropriate to apply a 2% side constraint to revenue-capped services. This provides protections for consumers from movements in metering prices that are significantly above the average price movement.

Our draft decision is to apply the revised side constraint mechanism which we developed as part of our annual pricing process review, adjusted where appropriate to reflect the revenue cap formulae for metering services.[39] The key changes to the side constraint mechanism in comparison to the 2021–26 period are:

[39] AER, *Annual pricing process review – Side constraint mechanism – Final position paper*, November 2022.

- including a Q factor in the mechanism for changes in price attributable to movements in quantities from the preceding year
- including a D factor in the mechanism to ensure the tariff class revenues are comparable to the CPI–X plus 2 per cent threshold.

The formulae that give effect to this mechanism are set out in Appendix A.

### 12.5.2 Control mechanism formulae for price-capped alternative control services

Our draft decision on the formulae that give effect to the control mechanism is to maintain the formulae set out in the final F&A[40], with the exception of the price cap formulae for quoted services, where we have introduced a formula for the margin component. Figure 12.3 and Figure 12.4 set out the price cap formulae to apply for alternative control services (where applicable) in the 2026–31 period.

**Figure 12.3 Price cap formulae for fee-based ancillary network services, public lighting, and metering exit fees**

| Formula | Equation | where |
|---|---|---|
| 1. | $\bar{p}_t^i \geq p_t^i$ | $i = 1, \dots, n$<br>$t = 1, 2, 3, 4, 5$ |
| 2. | $\bar{p}_t^i = \bar{p}_{t-1}^i \times (1 + \Delta CPI_t) \times (1 - X_t^i) \times (1 + A_t^i)$ | $i = 1, \dots, n$<br>$t = 2, 3, 4, 5$ |

where:

| Variable | Represents |
|---|---|
| $t$ | the regulatory year with t = 1 being the 2026–27 financial year. |
| $\bar{p}_t^i$ | the cap on the price of service 'i' for year t. This should be rounded to two decimal places (see Appendix D). |
| $p_t^i$ | the price of service 'i' in year t. The initial value is to be decided in the distribution determination. |
| $\bar{p}_{t-1}^i$ | the cap on the price of service 'i' for year t-1. |
| $\Delta CPI_t$ | the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[41] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025. |
| $X_t^i$ | the X-factor for service 'i' in year t. The value of this factor is as specified in Attachment 14 – Alternative control services or Attachment 15 – Metering services and/or associated models. |

[40] AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, pp. 14-15.

[41] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

| Variable | Represents |
|---|---|
| $A_t^i$ | the sum of any adjustments for service 'i' in year t. This includes any bespoke adjustments the AER deems necessary, applying the time value of money where appropriate. |

## Figure 12.4 Price cap formulae for quoted services

| Formula | Equation | Where |
|---|---|---|
| 1. | $\bar{p}_t = \text{Labour}_t + \text{Contractor Services}_t + \text{Materials}_t + \text{Margin}_t + \text{Tax}_t$ | $t = 1, 2, 3, 4, 5$ |
| 2. | $\text{Labour}_t = \text{Labour}_{t-1} \times (1 + \Delta\text{CPI}_t) \times (1 - X_t^i)$ | $t = 2, 3, 4, 5$ |
| 3. | $\text{Margin}_t = 6\% \times (\text{Labour}_t + \text{Contractor Services}_t + \text{Materials}_t)$ | $t = 1, 2, 3, 4, 5$ |

where:

| Variable | Represents |
|---|---|
| $t$ | the regulatory year with t = 1 being the 2026–27 year. |
| $\bar{p}_t$ | the applicable price cap for the requested service. |
| Labour | the labour costs directly incurred in the provision of the service which may include labour on-costs, fleet on-costs and overheads. Labour is escalated annually by CPI-X, calculated as per formula 2 above. |
| $\Delta\text{CPI}_t$ | the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[42] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025. |
| $X_t^i$ | the X factor for labour rate 'i' in year t. The value of this factor is as specified in Attachment 14 – Alternative control services. |
| Contractor Services | the costs associated with the use of external labour including overheads and any direct costs. The contracted services charge applies the rates under existing contractual arrangements. Direct costs incurred are passed on to the customer. |
| Materials | the cost of materials directly incurred in the provision of the service, material storage and logistic on-costs and overheads. |
| Margin | 6% multiplied by the sum of labour, contractor services, and materials, calculated as per formula 3 above. |
| Tax | the tax payable at the company tax rate of 30% on the capital component of the expenditure (revenue less expenses) that incurs a tax liability. |

[42] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

#### 12.5.2.1 Definition of formulae parameters

The final F&A stated that we would define the X and A factors, as well as the margin and tax for quoted services, in our draft decision.[43] These definitions are as follows:

- X factor: This adjustment will continue to apply the real price path of our determinations. This is generally equal to 0 or the effective labour cost escalator.
- A factor: The adjustment will continue to include any bespoke adjustments that the AER may deem appropriate.
- Margin: This component will be calculated as 6% of labour, contractor services, and material costs only. We consider a flat rate (rather than the WACC) to be transparent and easy to apply, and that it allows for a return commensurate with the regulatory and commercial risks involved in providing quoted services.
- Tax: This component will be calculated as 30% (the company tax rate) on the capital component of expenditure that incurs a tax liability and aligns with the application of tax for other services provided by distributors.

Our definitions of the margin and tax component reflect the application of these components across our recent 2024–29 and 2025–30 determinations. For quoted services we apply these rates to be simple and clear for customers in engaging with these quoted services. This differs to the consideration of margin and tax components in fee-based services (see Attachment 14), where the cost build-up of these services is available in our determination and there are interactions with other components of the cost build-up, or the distributor may have proposed a top-down escalation. Customers of these fee-based services engage only with the prices we approve, allowing us to consider margin and tax components in a different way.

### 12.5.3 Addition of new price-capped alternative control services

Distributors should propose changes to their alternative control services as a part of their regulatory proposals. However, we understand there are times where a distributor cannot foresee a specific new service at the time of the regulatory determination. This is especially relevant in public lighting where new technologies are emerging, including more advanced light-emitting diode (LED) lamps and the integration of smart devices in public lighting infrastructure, or where current offerings become obsolete.

During the 2026–31 period, we will allow distributors to propose new services. New services should only be introduced because customers want them (customer driven) or need them (replacing other services that are no longer available). Our assessment of new services will include consideration of the extent customers have transparency over the costs of the service as well as the likely benefits to customers from the service.

Where new services are to be introduced, they must clearly fall within one of the established service groupings in the applicable service classifications. The proposed price should be demonstrated that it is in line with the cost build-up for an existing service similar to that proposed, as considered and approved in our determination process. For example, the price

[43] AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 15.

for a new type of public lighting would be based on a relevant public lighting service. Services that do not fit the current service classifications, or are not similar to any currently provided service, can not be introduced in this way.

Prices for new services will be formalised as a part of the annual pricing process. However, distributors should engage with us as early as possible on any proposed new service. Prior to submitting their annual pricing proposal, and no later than the submission of a preliminary pricing proposal under our pre-lodgement engagement process (see Appendix C), the distributors must submit to the AER:

- a detailed description of the service along with how the new service will be charged
- the proposed price setting out how each cost component is consistent with the price cap formulae for quoted services above and
- demonstration of customer engagement and support.

The AER will consider the proposal for inclusion in the relevant annual pricing proposal. This is consistent with our F&A, and regulatory determinations across all NEM jurisdictions.[44] For the avoidance of doubt, this only relates to price-capped alternative control services.

### 12.5.4 Transparency of quoted services

Our draft decision includes requirements around transparency of billing for quoted services. Prior to the customer agreeing to receive the services:

- Distributors must provide itemised invoices to the customer or the service recipient. The itemised invoices must show all cost components. At a minimum, invoices must contain information on the cost components to demonstrate compliance with the control mechanism formula for quoted services.
- The charges must be consistent with good industry practice in terms of the resource requirements.

[44] See for example, AER, *Final Decision Attachment 14 - Control mechanisms - NSW, ACT, NT and Tas - 2024–29 Distribution revenue proposal*, April 2024, p. 13.

# A Side constraint mechanism

The side constraint formulae to apply to standard control services and metering services for the 2026–31 period are set out in Figure A.1 and Figure A.2 respectively. These formulae apply when year t = 2, 3, 4 and 5.

**Figure A.1 Side constraint formulae for standard control services**

| Formula | Equation |
|---|---|
| 1. | $$PP_t \geq \frac{SCR_t}{SCR_{t-1}}$$ |
| 2. | $$PP_t = \left((1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) - 1\right) \times D_t + AA_t + Q_t + 1$$ |
| 3. | $$SCR_t = \sum_{i=1}^{m} \sum_{j=1}^{n} p_t^{ij} q_t^{ij}$$ |
| 4. | $$SCR_{t-1} = \sum_{i=1}^{m} \sum_{j=1}^{n} p_{t-1}^{ij} q_t^{ij}$$ |
| 5. | $$D_t = \frac{AAR_{t-1}}{SCR_{t-1}}$$ |
| 6. | $$AA_t = \frac{(I_t + C_t + B_t) - (I_{t-1} + C_{t-1} + B_{t-1})}{SCR_{t-1}}$$ |
| 7. | $$Q_t = \left(\frac{TAR_{t-1}}{SCR_{t-1}} - 1\right)$$ |

where each tariff class has “n” tariffs, with each up to “m” components, and where:

| Variable | Represents |
|---|---|
| $t$ | the relevant regulatory year, with t = 1 being the 2026–27 financial year. |
| $PP_t$ | the permissible percentage for year t, calculated as per formula 2 above. |
| $SCR_t$ | the side constraint revenue for year t, calculated as the sum of the products of proposed prices and forecast quantities for year t, calculated as per formula 3 above. |
| $SCR_{t-1}$ | the side constraint revenue for year t-1, calculated as the sum of the products of prices charged for year t-1 and forecast quantities for year t, calculated as per formula 4 above. |
| $\Delta CPI_t$ | the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[45] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025. This is as per the change in CPI used in the revenue cap formulae in Figure 12.1 above. |

[45] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

| Variable | Represents |
|---|---|
| $X_t$ | the X factor in year t, incorporating adjustments to the PTRM for the trailing cost of debt as used in the revenue cap formulae. If X>0, then X will be set equal to zero for the purposes of the side constraint formula. |
| $2\%$ | the additional 2% threshold defined in cl. 6.18.6(c) of the NER. |
| $D_t$ | the adjustment to create a common revenue base, calculated as per formula 5 above. |
| $AA_t$ | the annual percentage change in the sum of all annual adjustment factors (I, B and C factors). This is calculated by dividing the total incremental revenues (the difference between the factors used in the total annual revenue formula for regulatory year t and year t-1) by the expected revenues for year t-1 ($SCR_{t-1}$). This calculation is provided at formula 6 above. |
| $Q_t$ | the adjustment made each year to account for changes in quantities from the preceding year. The Q factor calculation is provided at formula 7 above. |
| $p_t^{ij}$ | the proposed price for component 'j' of tariff 'i' for year t. |
| $q_t^{ij}$ | the forecast quantity for component 'j' of tariff 'i' for year t. |
| $p_{t-1}^{ij}$ | the price charged for component 'j' of tariff 'i' for year t-1. |
| $AAR_{t-1}$ | the adjusted annual revenue requirement for year t-1, as used in the revenue cap formulae in Figure 12.1 above in the preceding and current years. |
| $I_t$ | the sum of incentive scheme adjustments in year t, as per the revenue cap formulae in Figure 12.1 above. |
| $C_t$ | the sum of approved cost pass through amounts (positive or negative) in year t, as determined by the AER. It will also include any end-of-period adjustments to be made in year t, as per the revenue cap formulae in Figure 12.1 above. |
| $B_t$ | the sum of annual adjustment factors for year t, as per the revenue cap formulae in Figure 12.1 above. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue. |
| $I_{t-1}$ | the sum of incentive scheme adjustments in year t-1. This is as per the approved t-1 pricing proposal. |
| $C_{t-1}$ | the sum of approved cost pass through amounts (positive or negative) in year t-1, as determined by the AER. This is as per the approved t-1 pricing proposal. |
| $B_{t-1}$ | the sum of annual adjustment factors for year t. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue. This is as per the approved t-1 pricing proposal. For the avoidance of doubt, the B factor for t-1 should be equal to that used to calculate t-1 revenue in the previous pricing proposal and should not be updated for movements in the unders/overs accounts in the year t pricing proposal. |
| $TAR_{t-1}$ | the total allowable revenue for year t-1, calculated using the revenue cap control formula in the preceding year. |

## Figure A.2 Side constraint formulae for metering services

| Formula | Equation |
|---|---|
| 1. | $$PP_t \geq \frac{SCR_t}{SCR_{t-1}}$$ |
| 2. | $$PP_t = \left((1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) - 1\right) \times D_t + AA_t + Q_t + 1$$ |
| 3. | $$SCR_t = \sum_{i=1}^{m} \sum_{j=1}^{n} p_t^{ij} q_t^{ij}$$ |
| 4. | $$SCR_{t-1} = \sum_{i=1}^{m} \sum_{j=1}^{n} p_{t-1}^{ij} q_t^{ij}$$ |
| 5. | $$D_t = \frac{AAR_{t-1}}{SCR_{t-1}}$$ |
| 6. | $$AA_t = \frac{(C_t + B_t) - (C_{t-1} + B_{t-1})}{SCR_{t-1}}$$ |
| 7. | $$Q_t = \left(\frac{TARM_{t-1}}{SCR_{t-1}} - 1\right)$$ |

where each tariff class has “n” tariffs, with each up to “m” components, and where:

| Variable | Represents |
|---|---|
| $t$ | the relevant regulatory year, with t = 1 being the 2026–27 financial year. |
| $PP_t$ | the permissible percentage for metering services for year t, calculated as per formula 2 above. |
| $SCR_t$ | the side constraint revenue for metering services for year t, calculated as the sum of the products of proposed prices and forecast quantities for year t, calculated as per formula 3 above. |
| $SCR_{t-1}$ | the side constraint revenue for metering services for year t-1, calculated as the sum of the products of prices charged for year t-1 and forecast quantities for year t, calculated as per formula 4 above. |
| $\Delta CPI_t$ | the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[46] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025. This is as per the change in CPI used in the revenue cap formulae in Figure 12.2 above. |
| $X_t$ | the X factor for metering services in year t, incorporating adjustments to the metering PTRM for the trailing cost of debt as used in the revenue cap formulae. If X>0, then X will be set equal to zero for the purposes of the side constraint formula. |
| $2\%$ | the additional 2% threshold determined by the AER. |
| $D_t$ | the adjustment to create a common revenue base, calculated as per formula 5 above. |

[46] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

| Variable | Represents |
|---|---|
| $AA_t$ | the annual percentage change in the sum of all annual adjustment factors (B and C factors). This is calculated by dividing the total incremental revenues (the difference between the factors used in the total annual revenue formula for regulatory year t and year t-1) by the expected revenues for year t-1 ($SCR_{t-1}$). This calculation is provided at formula 6 above. |
| $Q_t$ | the adjustment made each year to account for changes in quantities from the preceding year. The Q factor calculation is provided at formula 7 above. |
| $p_t^{ij}$ | the proposed price for component 'j' of tariff 'i' for year t. |
| $q_t^{ij}$ | the forecast quantity for component 'j' of tariff 'i' for year t. |
| $p_{t-1}^{ij}$ | the price charged for component 'j' of tariff 'i' for year t-1. |
| $AAR_{t-1}$ | the adjusted annual revenue requirement for metering services for year t-1, as used in the revenue cap formulae in Figure 12.2Figure 12.1 above in the preceding and current years. |
| $C_t$ | the sum of approved cost pass through amounts (positive or negative) in year t, as determined by the AER. It will also include any end-of-period adjustments to be made in year t, as per the revenue cap formulae in Figure 12.2 above. |
| $B_t$ | the sum of annual adjustment factors for year t, as per the revenue cap formulae in Figure 12.2 above. It includes adjustments to balance the metering unders/overs account, relating to previous under/over-recoveries of revenue. |
| $C_{t-1}$ | the sum of approved cost pass through amounts (positive or negative) in year t-1, as determined by the AER. This is as per the approved t-1 pricing proposal. |
| $B_{t-1}$ | the sum of annual adjustment factors for year t. It includes adjustments to balance the metering unders/overs account, relating to previous under/over-recoveries of revenue. This is as per the approved t-1 pricing proposal. For the avoidance of doubt, the B factor for t-1 should be equal to that used to calculate t-1 revenue in the previous pricing proposal and should not be updated for movements in the metering unders/overs accounts in the year t pricing proposal. |
| $TARM_{t-1}$ | the total allowable revenue for metering services for year t-1, calculated using the revenue cap control formula in the preceding year. |

# B Unders and overs mechanism

To demonstrate compliance with the distribution determination applicable during the 2026–31 period, distributors must comply with the unders and overs mechanism in their annual pricing proposals.

Separate unders and overs mechanisms must be maintained for each of the following:

- Standard control services (distribution charges)
- Designated pricing proposal charges (DPPC)[47] [48]
- Jurisdictional scheme amounts (JSA).[49] [50]
- Metering services.

The unders and overs mechanism incorporates both an unders and overs statement and an unders and overs account. The unders and overs statement provides for a given year the forecast, estimated, or actual revenues and underlying expenditures (or allowed revenues for revenue caps) and calculates the variance – referred to as under or over-recoveries. The unders and overs account carries forward under and over-recoveries from previous years, applies the time value of money, and calculates the balancing adjustment to be applied to the revenue cap to balance the account each year.

The unders and overs statement must include the following entries for the most recently completed regulatory year (t–2), the current regulatory year (t–1) and the next (or forecast) regulatory year (t). An example of an unders and overs statement is provided in Table B.1.

- Forecast/estimated/actual revenue:
  - For DPPC, this will include cross-boundary revenue.
  - Include any deliberate under-recoveries, which will be added to recovered revenue, as this is not able to be recovered in future years (see section12.4.3).
  - Discounts any unpaid network charges resulting from ROLR events (see section 12.4.4).
- Applicable revenue caps for standard control services and metering services – these revenue caps are fixed over time and are not updated in subsequent years.
- Forecast/estimated/actual expenditure for DPPC and JSA – these items should be itemised as provided for in the annual pricing proposal template.
- The balancing adjustment (b factor) for each year – these adjustments are fixed over time and are not updated in subsequent years.

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47 DPPC generally related to amounts passed through by a distributor in relation to the transmission of electricity from or to networks outside of their own. DPPC are specified in more detail in NER clause 11.39.

48 NER, cll. 6.18.2(b)(6), 6.12.1(19), 6.18.7.

49 Jurisdictional scheme amounts are amounts passed through under a jurisdictional scheme approved by the AER or prescribed in the NER.

50 NER, cll. 6.12.1(20), 6.18.2(b)(6A), 6.18.7A(b) and (c).

### Table B.1 Example unders and overs statement ($'000, nominal)

| | | Year t–2 (actual) | Year t–1 (estimate) | Year t (forecast) |
|---|---|---|---|---|
| Revenue from charges | i | 100 000 | 103 000 | 92 266 |
| Cross-boundary revenue (DPPC only) | ii | | | |
| Deliberate under-recoveries | iii | 50 | 50 | 50 |
| Unpaid network charges (ROLR) | iv | 10 | | |
| **Total revenue** | i + ii + iii - iv = **A** | **100 040** | **103 050** | **92 316** |
| Total allowable revenue [a]/DPPC or JSA expenditure [b] | | 98 000 | 99 000 | 100 000 |
| **Total allowable revenue/Total DPPC expenditure/Total JSA expenditure** | **B** | **98 000** | **99 000** | **100 000** |
| **Total under/over recovery of revenue for regulatory year** | A - B = **C** | 2 040 | 4 050 | -7 684 |
| Balancing adjustment (b factor) made when year was 't' [c] | D | 5 000 | 5 000 | -7 684 [d] |
| **Net under/over recovery of revenue for regulatory year** | C - D = **E** | **-2 960** | **-950** | **0** |

Notes: (a) Total allowable revenue for a revenue cap should exclude the balancing adjustment applied for revenue under/over recovery for the regulatory year and are therefore it is expected to equal the sum of the remaining annual adjustments, excluding $b_t$, as set out in Figure 12.1 for standard control services and Figure 12.2 for metering services.
(b) DPPC and JSA expenditure will be itemised in their respective unders and overs statement in line with the annual pricing proposal template.
(c) The balancing adjustment applied in the revenue cap for each relevant regulatory year. This is as approved in the relevant pricing proposal and should remain unchanged.
(d) Approved revenue under/over recovery for regulatory year t.

The unders and overs account must include the following entries for the most recently completed regulatory year (t–2), the current regulatory year (t–1) and the next (or forecast) regulatory year (t). An example unders and overs account is provided in Table B.2.

1. Opening balances for each regulatory year (reflecting the closing balance of the previous year).
2. An interest charge for one year on the opening balance for each regulatory year.
3. The net under or over recovery calculated in the unders and overs statement for each regulatory year, and any applicable adjustment to remove under or over recovery amounts from the account.[51]

[51] These adjustments include, but are not limited to, bespoke smoothing arrangements set in our Determination in response to significant unforeseen events, jurisdictional schemes that treat under or over recoveries within the scheme, removal of residual true-ups after jurisdictional schemes have ceased.

4. An interest charge for 6 months on the net under or over recovery for each regulatory year.
5. The total sum of items 1–4 to derive the closing balance for each regulatory year.

**Table B.2 Example unders and overs account ($'000, nominal)**

| | | Year t–2 (actual) | Year t–1 (estimate) | Year t (forecast) |
|---|---|---|---|---|
| Adjusted nominal WACC (per cent) | F | 5.00% | 5.50% | 6.00% |
| Opening balance | G | 1 000 | 3 140[a] | 7 463 |
| Interest on opening balance | F x G = **H** | 50 | 173 | 448 |
| Under/over recovery of revenue for regulatory year | E (from statement) | 2 040 | 4 050 | -7 684 |
| Adjustment | I | 0 | 0 | 0 |
| Interest on under/over recovery for regulatory year | (E – I) x $F^{0.5}$ = **J** | 50 | 100 | -227 |
| **Closing balance** | G + H + E + I + J = **K** | **3 140** | **7 463** | **0**[b] |

Notes: (a) Opening balance is the previous year's closing balance, being the value K from the final row of the preceding column. For the first year in the unders and overs account, the opening balance is taken from the most recently approved pricing proposal. In the above example, the $3 140 opening balance for year t-1 is taken from the closing balance for year t-2. The $1 000 opening balance for year t-2 is taken from the closing balance of year t-2 from the most recently approved pricing proposal, which would be year t-3 if presented in the latest version of the account.
(b) Distributors are expected to achieve a closing balance as close to zero as practicable (and less than or equal to 0) in their unders and overs accounts in each forecast year (t) in their annual pricing proposals.

Interest charges are to be calculated using the relevant adjusted nominal WACC. The adjusted nominal WACC applied for each year will be the real vanilla WACC approved by the AER in the relevant annual update, escalated for actual inflation for the relevant year.[52] This is as applied in the revenue cap formulae set out in Figure 12.1.

Distributor's annual pricing proposals must provide details of calculations in the format set out in Table B.1 and Table B.2. In general:

- Amounts provided for the most recently completed regulatory year (t–2) must be audited.[53]
- Amounts provided for the current regulatory year (t–1) will be regarded as an estimate.

52 If circumstances require, alternative adjustments for an appropriate cost of capital may be applied following consultation between the AER and relevant distributor(s).

53 A reasonable assurance report sufficiently meets these auditing requirements. Where amounts provided match other audited submissions to the AER, further assurance is not required (e.g. RINs) and should be referenced.

  - Generally, these estimates would reflect the approved prices for year t-1 multiplied by the estimated quantities for year t-1.
  - If not, supporting information should be provided as to how those estimates are calculated and why they should be considered the best estimate of expected revenue for the year.
- Amounts for the next regulatory year (t) will be regarded as a forecast.
  - Generally, these estimates would reflect the prices for year t multiplied by the forecast quantities for year t.
  - If not, supporting information should be provided as to how those forecasts are calculated and why they should be considered reasonable.

In exceptional circumstances, the unders and overs accounts can accommodate additional years, such as year t–3.[54]

To ensure compliance with the NER and the revenue cap form of control, a closing balance as close to zero as practicable, and below zero, is expected to be achieved in each forecast year t for each unders and overs account.

### Jurisdictional scheme amounts

Jurisdictional scheme amounts consist of jurisdictional regulatory arrangements which can be temporary in nature. As a result, there can be times where no jurisdictional schemes apply and annual true-ups of the recovered revenues may continue in perpetuity in smaller and smaller amounts.

We consider it appropriate that if in a particular year, there is no forecast jurisdictional scheme amounts for that year, or for future years, that any residual amounts in that year will be moved out of the unders and overs account. These amounts will be applied as an adjustment in the distribution revenue control mechanism and allow the jurisdictional scheme unders and overs account to balance to 0. For the avoidance of doubt, this adjustment will occur in the year following the cessation of a jurisdictional scheme, being the first year that the forecast jurisdictional scheme amounts are $0, and where there are no continuing jurisdictional scheme amounts forecast for future years.

If at any point jurisdictional schemes are subsidised, subsidy amounts will be considered to be revenues for the purpose of the unders and overs mechanism. These amounts will still need to be ‘trued-up’, to ensure the distributor does not recover more or less than they otherwise should.

[54] Subject to AER approval. Any amounts provided for additional years prior to t-2 must be audited.

# C Annual pricing proposals

In line with our approach established through the annual pricing process review,[55] the AER will provide pre-filled standardised pricing proposal models for distributors to use in submitting their annual pricing proposals.

By each January of the 2026–31 period, we will provide distributors with pre-filled pricing proposal models to be used when submitting pricing proposals. These pre-filled models will include annual adjustments, revenue (for distribution, metering, DPPC, and JSA) and expenditure (for DPPC and JSA) true-up amounts from regulatory information notices or other sources, CPI and annual return on debt updates, and other components known by the AER. Pre-filling this data allows for the AER to verify inputs prior to the short timelines allowed within the pricing approval process.

We will also use these models during our pre-lodgement engagement process with distributors during February and March. This process is used to confirm pre-filled inputs and engage on other inputs known to the distributor at this time, such as consumption forecasts. This process will also allow us to confirm the correct application of the price cap mechanisms for alternative control services in advance of the pricing proposal submissions.

These processes will lead to annual pricing proposals that are more likely to be capable of approval without revision and are therefore able to be approved in a timely manner.

In their pricing proposals, distributors should also:

- provide a completed 'Statement of Compliance' using the AER's template[56]
- provide a confidentiality template
- provide public versions of any confidential models or documents for publication
- use version numbers in filenames for easy identification of revision by stakeholders (in the format of v1, v2, v3, etc.) and
- provide details on methodologies and any supporting information for any forecasts provided (e.g., consumption forecasts).

The AER will set expectations prior to each process, which may outline further factors for the distributors to consider when submitting pricing proposals.

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55 AER, *Annual pricing process review – Final position paper*, December 2022.

56 https://www.aer.gov.au/documents/aer-annual-pricing-process-review-statement-compliance-march-2024

# D Rounding

The following sets out our draft decision on how distributors should use calculation inputs (i.e. whether on a rounded or unrounded basis) in their annual pricing proposals to demonstrate compliance.

## Unrounded inputs to be used in calculations

'Unrounded', for this purpose, will be taken to mean at least 15-digit floating point precision (the level of accuracy at which numbers will be stored in Microsoft Excel workbooks of .XLS, .XLSX, .XLSM or .XLSB). This definition accepts that numbers with fewer than fifteen floating digits may not require 15 digits to express (such as 2.25 being equivalent to 2.25000000000000) but will meet the definition of 15-digit floating point precision.

Unrounded values should be maintained throughout calculations. Where a calculation produces an output which is to be used as an input in another calculation, rounding should not occur. Rounding should be applied to final outputs only, unless otherwise specified.

Unrounded inputs should be taken from approved Excel models where appropriate. X-factors should be unrounded inputs taken from the approved model. Where appropriate, inputs should be calculated as an alternative to using a rounded value.

For example, inflation should be calculated based around the CPI tables as provided by the ABS, or the AER's nominated best available substitute should this index cease to be calculated. The result of this calculation should be taken as is, not rounded before use. TableD.1 sets out the required level of precision for an inflation calculation.

### TableD.1 Demonstration of inflation calculation

| | Required precision |
|---|---|
| The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–2 (example) | 112.1 |
| The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–1 (example) | 114.6 |
| $\Delta CPI_t$ | 2.23015165031222% |

Unrounded inputs include all those not specified below as suitable to be rounded in a given situation.

## Instances where rounding is acceptable

In general, rounding in calculations must be done on a 'nearest' basis. Rounding to two decimal places means rounding to the nearest two decimal places, not rounding up automatically or down automatically. This accepts the convention that if a number falls precisely between two points, it can be rounded up (e.g. 2.245 can be rounded to 2.25 rather

than 2.24). An exception to this for prices charged by the distributor is noted below, as these must be less than or equal to the price cap.

Prices under a price cap or a revenue cap should be input as billed. That is, if billing systems calculate charges based on a value rounded to 4 decimal places, then the input into the pricing proposal for actual or proposed prices should also be rounded to 4 decimal places to reflect the actual prices charged.

### Price cap control mechanism formulae

When applying a price cap, the value should be rounded to the nearest two decimal places each year. When calculating the value of the price cap for the following period, the rounded value of the previous year's price cap must be used to determine the value of the new price cap to ensure consistency in the price cap from year-to-year.

**TableD.2 Demonstration of price cap calculation (with rounding)**

| | Required precision |
|---|---|
| $\bar{p}^{i}_{t-1}$ | $23.28 |
| X factor (example: should be taken from model) | -7.12546236955321% |
| $\Delta CPI_t$ | 2.23015165031222% |
| $\bar{p}^{i}_{t}$ (unrounded) | $25.4938708296164 |
| $\bar{p}^{i}_{t}$ (rounded) | $25.49 |

Prices charged by the distributor can be rounded to as few or as many decimal places as required, subject to being less than or equal to the two decimal place value of the price cap. In Table D.2, this would mean a price of $25.49 would be acceptable, as would a price of $25.4899. However, a price of $25.493 would not be compliant.

For the avoidance of ambiguity, where a price is expressible as a rate for a period of time, rounding of the price cap, and the demonstration of compliance, will apply to the largest relevant time period. For example, the price of an hourly service will be capped on an hourly basis. However, a service which can be priced either on a daily rate or an annual rate will have rounding apply to the cap on the annual rate. The daily rate should then represent the annual rate divided by 365, or 366 if the regulatory year to which the price applies is a leap year. This resulting daily rate may be expressed on a rounded basis (with discretion on the appropriate level of decimal places to apply) but must be based on a rounding to the nearest decimal place.

# Shortened forms

| Term | Definition |
|---|---|
| AAR | Adjusted annual smoothed revenue requirement |
| ABS | Australian Bureau of Statistics |
| AusNet | AusNet Services |
| CPI | Consumer price index |
| CSIS | Customer service incentive scheme |
| DMIAM | Demand management innovation allowance mechanism |
| DMIS | Demand management incentive scheme |
| DuOS | Distribution use of services |
| ESIS | Export service incentive scheme |
| F&A | Framework and approach |
| LED | Light-emitting diode |
| NER | National Electricity Rules |
| PTRM | Post-tax revenue model |
| ROLR | Retailer of last resort |
| STPIS | Service target performance incentive scheme |
| WACC | Weighted average cost of capital |