Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 15 – Metering services

September 2025

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	30 September 2025	30

Contents

15 Metering services

This attachment sets out our draft decision for the 2026–31 regulatory control period (**period**) for metering services provided by AusNet. These are alternative control services and additional to the other alternative control services we regulate (ancillary network services and public lighting services which are set out in Attachment 14). We are responsible for setting revenues for these services as they operate under a revenue cap form of control, consistent with our final position in our Framework & Approach paper[1], and as set out in Attachment 12. We are also responsible for setting price caps for metering exit fees.[2]

Metering services include maintenance, reading, data services, and the recovery of capital expenditure (**capex**) related to metering assets. Unlike other jurisdictions in the National Electricity Market (**NEM**), Victorian distributors are the monopoly providers of most metering services to small customers. In the rest of the NEM metering services are contestable, and distributors are unable to install new meters.

Metering assets are used to measure electrical energy flows at a point in the network to record consumption for the purposes of billing. Not all customers have the same type of meter. There are different types of meters which each measure electricity usage in different ways:[3]

- Type 1 to 4 meters have a remote communication ability. We refer to these as smart meters.
- Type 5 meters are interval meters and Type 6 meters are accumulation meters. We refer to these as legacy meters, which are being progressively replaced by smart meters.
- Type 7 metering services are unmetered connections with a predictable energy consumption pattern (for example, public lighting connections). Type 7 metering services are fee-based ancillary network services, which are discussed in Attachment 14.

Distributors also provide some non-routine metering services which are charged to customers when requested, such as meter disconnection. These non-routine metering services are also fee-based ancillary network services, discussed in Attachment 14.

In Victoria, legislation redefines most smart meters as type 5 and 6 meters for the purpose of distributors provision of metering services.[4] This means that we consider expenditure related to smart meters as a part of regulated metering services (despite these services being classified as unregulated services).

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1 AER, *Final Framework and Approach – Victorian electricity distribution determinations 2026–31, July 2024,* pp. 12–13.

2 Metering exit fees recover the written down value, as well as the efficient costs of removing and disposing, of meters. This is discussed in Appendix A, section A.9.

3 AER, *Final Framework and Approach – Victorian electricity distribution determinations 2026–31*, July 2024, pp. 32–33.

4 Victorian Government, *Order-In-Council, No. S 346*, October 2017, cl. 2(b); Department of Primary Industries, *Minimum AMI Functionality Specification (Victoria) v1.2*, September 2013; Department of Primary Industries, *Minimum AMI Service Levels Specification (Victoria) v1.1*, September 2008.

In this attachment, we:

- Set out our draft decision (section 15.1), which draws on the reasons in Appendix A.
- Summarise AusNet's proposal (section 15.2).
- Set out the reasons for our draft decision (Appendix A).

15.1 Draft decision

Our draft decision is to not accept AusNet's proposal as submitted. Our draft decision is to:

- Substitute our total annual revenue requirement (**ARR**) and to apply our smoothing profile. The smoothed ARR reflects updates to forecast inflation and inputs related to the 2022 rate of return instrument and weighted average cost of capital **(WACC)**, as well as our substituted:
  - Forecast metering capex, including revisions to labour costs of proposed proactive replacement of meters, removal of components of proposed IT capex, revisions to allocations of expenditure to standard control services (**SCS**) and to apply updates to forecast inflation and labour cost escalation.
  - Forecast metering operating expenditure (**opex**) to apply updates to forecast inflation and labour cost escalation.
- Accept AusNet's proposed recovery of costs from legacy meter customers at a higher price point than smart meter customers.
- Substitute our metering exit fee price caps to apply updates to forecast inflation and inputs related to the 2022 rate of return instrument and WACC, as well as our substituted capex and opex forecasts.

The reasons for our draft decision and each of the above positions are provided at Appendix A.

In addition to considering AusNet's revised proposal in our final decision, we will also apply updates where appropriate for actual inflation, actual capex and opex for 2024–25, and for our final decision forecast inflation, labour cost escalators, and inputs related to the 2022 rate of return instrument and WACC.

15.2 Overview of proposal

15.2.1 Metering revenue

AusNet proposed a total ARR for metering services of $206.1 million ($2025–26, smoothed) for the 2026–31 period.[5] To determine its proposed revenue requirement, AusNet used the AER's standardised metering models which apply the building block approach to determine allowable revenue. AusNet's proposed ARR and building blocks are set out in Table 15.1.

We note that we provide building block and ARR data in this table as real $2025–26 to allow for better comparison to the 2021–26 period. We generally provide this data in $nominal as we consider it is a better representation of revenues that will be recovered from customers.

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5 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

Data in Appendix A is presented in $nominal, and proposal data between this table and the appendix tables will differ.

Table 15.1 AusNet's proposal building blocks and annual revenue requirement ($million, 2025–26)

Category	2021–26 final decision	2026–31 proposal	Change from 2021–26	Proportion of total ARR proposed
Return on capital	48.1	33.7	-29.9%	16.4%
Return of capital (regulatory depreciation)	187.2	104.1	-44.4%	50.8%
Operating expenditure	96.6	61.9	-35.9%	30.2%
Net tax allowance	15.3	5.2	-66.2%	2.5%
ARR (unsmoothed)	347.2	204.9	-41.0%	
ARR (smoothed)	**347.0**	**206.1**	**-40.6%**	

Source: AER, *Final Decision - AusNet Services distribution determination - 2021–26 - ACS - Metering - Post-tax revenue model*, April 2021; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

15.2.2 Capital expenditure

AusNet proposed total capex for metering services of $173.5 million ($2025–26) in the 2026–31 period.[6] This capex includes expenditure for installations of new meters for customer growth, replacement of meters on fault or failure, installation and replacement of communication equipment to support remote connection to meters, and IT capability to manage metering data.

In addition to these routine expenditures, AusNet also proposed $97.1 million ($2025–26) in the 2026–31 period to proactively replace meters that have reached end of life and are at an increased risk of failure.[7] This is a material and new capex category, reflecting that this is the first time smart meters have reached their end of life and will need replacement.

AusNet's total proposed capex for the 2026–31 period is set out in Table 15.2, along with allowed capex in the 2021–26 period, the change in capex between the 2021–26 and 2026–31 periods and the proportion of capex each category makes up of total proposed capex in the 2026–31 period.

6 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

7 AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025.

Table 15.2 AusNet's proposed capex ($million, 2025–26)

Category	2021–26 final decision	2026–31 proposal	Change from 2021–26	Proportion of total capex proposed
Proactive replacement		97.1		46.9%
Growth		32.4		15.6%
Reactive replacement	50.6	16.8	11.5%	8.1%
Capitalised overheads		7.2		3.5%
Communications	53.1	16.7	-68.6%	8.1%
IT	6.7	19.2	185.6%	9.3%
Other	0.3	16.9	5903.7%	8.1%
Equity raising costs	0.8	1.0	27.8%	0.5%
Total capex (including SCS allocations)	**111.4**	**207.2**	**86.0%**	
Total capex (excluding SCS allocations)	**102.2**	**173.5**	**69.9%**	

Note: In the 2021–26 final decision we did not have separate allowances for growth, reactive replacement, capitalised overheads and communications capex. Categorised expenditure is presented in this table inclusive of expenditure allocated to SCS.
Source: AER, *Final Decision - AusNet Services distribution determination - 2021–26 - ACS - Metering - Capex model*, April 2021; AER, *Final Decision - AusNet Services distribution determination - 2021–26 - ACS - Metering - Post-tax revenue model*, April 2021; AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 - ACS - Metering PTRM*, January 2025.

15.2.3 Operating expenditure

AusNet proposed total opex for metering services of $61.9 million ($2025–26) in the 2026–31 period.[8] AusNet developed its opex forecast using the 'base-step-trend' method, consistent with the standardised metering models and our standard approach for SCS. AusNet proposed a base opex using historical opex (2023–24) with no adjustments, a trend that includes metering growth and real price changes in labour costs, and a step change to fund the roll out of distributed intelligence capabilities from 2028–29.[9]

AusNet's proposed opex in the 2026–31 period is set out in Table 15.3, along with allowed opex in the 2021–26 period. The table also shows the change in opex between the 2021–26 and 2026–31 periods and the proportion of opex each category makes up of total proposed opex in the 2026–31 period.

8 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

9 AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 354.

Table 15.3 AusNet's proposed opex ($million, 2025–26)

Category	2021–26 final decision	2026–31 proposal	Change from 2021–26	Proportion of total opex proposed
Base opex	108.3	53.3	-50.8%	86.0%
Trend: Output growth		3.9		6.3%
Trend: Price growth		2.5		4.0%
Total trend	1.7	6.6	289.9%	10.6%
Step change: Distributed Intelligence		1.8		2.9%
Total step changes	-13.9	1.8	-112.9%	2.9%
Debt raising costs	0.5	0.3	-49.1%	0.4%
Total opex	**96.6**	**61.9**	**-35.9%**	

Note: Trend components will not sum to total trend due to compounding effects. We also did not separately include allowances for these components in our 2021–26 final decision.
Source: AER, *Final Decision - AusNet Services distribution determination - 2021–26 - ACS - Metering - Opex model*, April 2021; AER, *Final Decision - AusNet Services distribution determination - 2021–26 - ACS - Metering - Post-tax revenue model*, April 2021; AusNet, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AusNet, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

15.2.4 Stakeholder views

We received one submission on metering in response to AusNet's proposal and our issues paper. This was from AusNet's Coordination Group. It noted that while the stakeholder engagement on metering services was more limited than other areas of the proposal, AusNet did seek stakeholder views and reflected the considerations of stakeholders in its proposal.[10] AusNet's Coordination Group explicitly noted that stakeholders supported AusNet's proposed strategy to provide pole-top or fence-line meter housing and to not deliver savings to legacy meter customers to increase smart meter penetration and lower metering costs going forward.[11]

15.3 Assessment approach

Metering services are classified as alternative control services.[12] The regulatory framework for assessing alternative control services is less prescriptive than for SCS. As such, we have a greater discretion under the NER in assessing proposals for metering services compared

[10] AusNet Coordination Group, *Submission – Victorian electricity distribution proposals 2026–31*, May 2025, p. 30.

[11] AusNet Coordination Group, *Submission – Victorian electricity distribution proposals 2026–31*, May 2025, p. 30.

[12] AER, *Final Framework and Approach – Victorian electricity distribution determinations 2026–31*, July 2024, p. 32.

to SCS. However, where possible we seek to apply similar approaches as applied to SCS. In considering AusNet's proposal we have had regard to:

- The application of our standardised metering model templates for metering expenditure, management of the regulated asset base, smoothing of allowed revenues, and setting of price caps where appropriate.
- An assessment of the prudent and efficient costs of providing metering services, having regard to historical expenditure, our previous determinations, benchmarked costs against other distributors, and against independent data and information as relevant.
- The wider regulatory context, including the existence or possibility of competition across metering services provided.
- Consistency of approach with other regulated services, particularly SCS, the current applicable determination, our recent determinations for other networks, and across the current proposals being assessed.
- Stakeholder engagement undertaken on the proposal, stakeholder feedback provided in response to the proposal or our issues papers and if / how it has been incorporated into proposals.
- Any other factors we considered relevant to our assessment.

A Reasons for draft decision

A.1 Annual revenue requirement

Our draft decision is for a total ARR for metering services of $213.1 million ($nominal, smoothed) for AusNet over the 2026–31 period.[13] This is a decrease of $8.3 million ($nominal) or 3.7% from AusNet's proposed total ARR of $221.3 million ($nominal, smoothed) for this period.[14]

Our draft decision applies a flat real price path for years 2–5. This is done by applying 0% X factors in these years. This means that any real price movement is applied in the 2026–27 year. We consider this provides the most certainty for customers and will deliver material real price decreases as soon as possible, including in the context of the impact of the increase of capex for proactive replacements.

Our draft decision ARR and X factors are set out in Table A.1.

Table A.1 Metering total ARR ($million, nominal)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Proposal – unsmoothed	68.5	37.5	33.3	37.7	42.2	219.2
Proposal – smoothed	48.1	46.1	44.2	42.4	40.6	221.3
Proposal – X factors	34.0%	6.4%	6.4%	6.4%	6.4%	
Draft decision – unsmoothed	63.7	32.7	32.3	37.4	44.2	210.2
Draft decision – smoothed	**40.5**	**41.5**	**42.6**	**43.7**	**44.8**	**213.1**
Draft decision – X factors	**45.1%**	**-**	**-**	**-**	**-**	

Note: A positive X factor reflects a reduction in revenues.
Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025; AER, *Metering PTRM – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

The AER's post tax revenue model (**PTRM**) calculates the ARR for each year of the 2026–31 period. This unsmoothed ARR for each year is then smoothed (as in Table A.1) and is the sum of the building block costs. Table A.2 shows the component and total building block costs that form the ARR and where discussion on the components that drive these costs can be found within this appendix.

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13 AER, *Metering PTRM – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

14 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

Table A.2 Metering building block components and total AAR (unsmoothed, $million, nominal)

Building block component	Total – proposal	Total – draft decision	Sections discussed
Return on capital	36.5	42.7	A.3, A.5
Return of capital (regulatory depreciation)	110.5	96.3	A.4, A.5
Operating expenditure	66.9	67.0	A.6
Net tax allowance	5.3	4.2	-
Revenue requirement	**219.2**	**210.2**	**A.1**

Note: Return on and of capital are products of proposed capex, discussed at section A.5.
Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025; AER, *Metering PTRM – Draft decision – AusNet Services distribution determination 2026–31,* September 2025.

A.2 Regulatory asset base

Our draft decision accepts AusNet's regulatory asset base (**RAB**) roll forward and calculation method. However, we substitute values for corrected historical inputs, our draft decision capex inputs, updated inflation, WACC inputs and other updated inputs related to the rate of return.

The value of the RAB impacts AusNet's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB increases both the return on capital and return of capital (depreciation) components of the distribution determination and therefore results in higher prices. Our draft decision is set out in Table A.3 and shows a higher closing RAB at the end of the 2026–31 period compared to AusNet's proposal. This reflects that our draft decision includes changes to actual 2021–26 capex in the RFM, changing the makeup of the RAB across asset classes, which are depreciated differently over the 2021–26 and 2026–31 periods.

Table A.3 Summary of metering asset roll forward ($million, nominal)

Summary of asset roll forward	Proposal	Draft decision
Opening RAB on 1 July 2026	118.6	130.7
Net capex	193.2	195.7
Regulatory depreciation	-125.0	-113.8
Inflation on opening RAB	14.5	17.5
Forecast closing RAB on 30 June 2031	**201.2**	**230.1**

Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025; AER, *Metering PTRM – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

We used the roll forward model (**RFM**) to roll forward AusNet's RAB from the 2021–26 period to arrive at an opening RAB value as of 1 July 2026. This includes application of a bespoke RFM template to factor in the transition to financial year regulation which occurred in 2021.

The roll-forward calculation accounts for inflation, the WACC, actual net capex and actual depreciation.

In updating the RFM for actual capex, we have had difficulty reconciling these amounts across the amounts reported by distributors in their regulatory information notices (**RIN**s). Where available, we have updated the RFM total actual capex for amounts reported in the annual reporting RIN (table 8.2.3). As this capex is not disaggregated, we have used the reported communications and IT capex related to metering services from the category analysis RIN (table 4.2.2) for the relevant asset classes, with the residual being attributed to the metering asset class. Where actual capex values have not been reported in the annual reporting RIN, we have used data reported for meter purchase and replacement collectively to represent actual capex for the metering asset class. We expect distributors to consider the actual capex amounts and how they reconcile with the RINs in their revised proposals, along with any required resubmissions of RINs to support.

In the 2026–31 period, we expect distributors to report actual metering capex by purpose in the new annual orders (table 8.2.3)[15] in a way that can be reconciled against future RFMs. We expect this will be disaggregated to meter, communications and IT components as a minimum. But we would prefer it to be disaggregated further at the meter component by purpose to align with categories of capex considered in this draft decision (e.g., proactive replacement, reactive replacement, customer-initiated replacement, etc.).

Some capex amounts in the RFM are estimated based on forecasts where actual data is not available (for example, actual capex for 2024–25 and 2025–26). We have updated these forecasts using calculations in the metering expenditure model to reflect the impact of updated modelling inputs (such as updates for inflation and labour escalators). Where amounts were provided in the proposal for IT capex, and these were not present in the expenditure model, we have retained the proposed amounts in the RFM to reflect IT capex for projects allowed in the 2021–26 period.

The opening RAB at the beginning of the 2026–31 period may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide metering services to be included in the RAB. No such adjustments have been made for the 2026–31 period.

The PTRM used to calculate the ARR for the 2026–31 period generally adopts the same RAB roll-forward approach as the RFM, with the forward-looking annual adjustments to the RAB being based on forecasts. These will then be updated for actual amounts in the RFM in the 2031–36 period.

A.3 Rate of return

Our draft decision on metering services applies the same rate of return (WACC) as applied throughout our determination, as set out in section 2.2 of the Overview to this draft decision. This states that the draft decision uses the 2022 rate of return instrument. This includes updated rates for return on debt, inflation, and equity raising costs.

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15 AER, *DNSP – Annual Order 2024–25 – Data submission workbook*, January 2025.

A.4 Regulatory depreciation

Our draft decision accepts AusNet's proposed straight-line depreciation approach, with substitute values for corrected historical inputs, our draft decision capex inputs, updated inflation, WACC inputs, and other updated inputs related to the rate of return. This includes the application of our standardised RFM, PTRM, and depreciation tracking model templates.

A.5 Capital expenditure

Our draft decision is for a total capex for metering services of $175.6 million ($2025–26) for AusNet over the 2026–31 period.[16] This is an increase of $2.1 million ($2025–26) or 1.2% from AusNet's proposed total capex of $173.5 million ($2025–26) for this period.[17] Our draft decision capex for the 2026–31 period is set out in Table A.4, along with a comparison against AusNet's proposed capex for that period.

Table A.4 Draft decision capex ($million, 2025–26)

Category	2026–31 proposal	2026–31 draft decision	Change from proposal	Draft decision proportion of total capex
Proactive replacement	97.1	83.0	-14.5%	43.8%
Growth	32.4	32.0	-1.2%	16.9%
Reactive replacement	16.8	16.7	-0.6%	8.8%
Capitalised overheads	7.2	7.4	3.6%	3.9%
Communications	16.7	16.7	-0.1%	8.8%
IT	19.2	15.8	-17.4%	8.4%
Other	16.9	16.7	-0.9%	8.8%
Equity raising costs	1.0	1.0	-	0.5%
Total capex (including SCS allocations)	**207.2**	**189.3**	**-8.6%**	
Total capex (excluding SCS allocations)	**173.5**	**175.6**	**1.2%**	

Note: Categorised expenditure is presented in this table inclusive of expenditure allocated to SCS.
Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 - ACS - Metering PTRM*, January 2025; AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025; AER, *Metering PTRM – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

16 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

17 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

A.5.1 Direct metering capex

A.5.1.1 Proactive meter replacement

Assessment Overview

Our draft decision is for proactive replacement capex for metering services of $83.0 million ($2025–26) for AusNet over the 2026–31 period.[18] This is a decrease of $14.1 million ($2025–26) or 14.5% from AusNet's proposed proactive replacement capex of $97.1 million ($2025–26) for this period.[19]

Our draft decision accepts the need for AusNet to undertake a proactive meter replacement program in the 2026–31 period, reflecting the emerging risks of not meeting its metering obligations, given its ageing smart meter fleet that is approaching the end of its asset life. However, our draft decision does not accept AusNet's proactive replacement proposal capex as proposed, substituting a lower capex incorporating greater labour efficiencies compared to those proposed. We have retained the timing of AusNet's proposed capex in the next period (starting from 2028–29) and acknowledge that this both includes a step up over 2-years and incorporates the stakeholder engagement and feedback AusNet received in formulating its proposal.

Cost benefit analysis, procurement and delivery

The Victorian distributors proposed proactive meter replacement programs for their ageing smart meters across their networks. This reflects that most smart meters in Victoria were rolled out in a 5-year period from 2009 and are reaching the end of their expected 15-year asset lives. As these meters reach the end of their asset lives, they are more likely to fail and require replacement, particularly during the 2026–31 period. This could impact the distributors' ability to meet their metering obligations, for example, no less than 99% of actual data within 24 hours of the time in previous point to be available.[20]

As the Victorian smart meter rollout was one of the first large-scale rollouts to occur, there is little data on the rate of failure of these assets. International benchmarking provided by the distributors suggests that utilities with similar ageing smart meter fleets are experiencing increasing annual failure rates, with older meters contributing to an overall fleet-wide failure rate of around 2% per year for meters older than 10+ years.[21] Experience in Australia to date shows that the smart meter battery and memory are the major drivers of meter failure.[22]

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18 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

19 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

20 Department of Primary Industries, *Minimum AMI Service Levels Specification (Victoria) v1.1*, September 2008, p. 6.

21 CitiPower, *CP ATT 11.03 - Blunomy - Smart meters replacement benchmark study*, January 2025, p. 9.

22 CitiPower, *CP BUS 11.01 – Metering*, January 2025, p. 7; Powercor, *PAL BUS 12.01 – Metering*, January 2025, p. 7; United Energy, *UE BUS 12.01 – Metering*, January 2025, p. 7; AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, pp. 4–5; Jemena, *JEN – RIN – 4.6.1 – Inspection of Metering Installations – Business Case*, January 2025, p. ix.

AusNet developed a business case and cost benefit analysis to determine the preferred replacement approach. This assessed three options for proactive replacement:[23]

- Base case – replace smart meters from July 2026 to June 2040 (14 years)
- Option 1 – delay smart meter replacement until July 2028 to June 2042 (14 years)
- Option 2 – defer meter replacements until July 2031 to June 2041 (6 years)

In defining the problem associated with its business case, AusNet noted that most of its smart meters are now more than 11 years old and it has observed an increase in meter issues.[24] Based on a technical assessment undertaken with its supplier, AusNet noted degradation of the meter's onboard flash memory as the main fault experienced.[25] Further, it noted that if the risk of meter memory failures is not mitigated then it will have consequential impacts in terms of not being able to meet its regulatory metering obligations, and customers will be impacted.[26] Specifically, AusNet indicated that if 15,000 meters (1.8% of its total smart meters) fail in a year and are replaced without using urgent response unit labour rates, it is unlikely to achieve compliance with the obligation to provide 99.9% of actual meter data to retailers within 10 business days.[27] Given this AusNet proposed to replace meters 3 years after a unique memory error event is recorded.[28]

AusNet noted Option 1, the delayed replacement option, was developed in response to feedback from its customer forum, which raised concerns about affordability and the potential to defer investment.[29]

AusNet also examined a meter component replacement option as part of its assessment, in response to stakeholder feedback, but did not consider it feasible and therefore did not include it in its business case.[30] This was because most of its pre-2018 smart meters are not capable of 5-minute metering and are non-compliant with the NER rule changes introduced in May 2016. Further, because smart meters are closed units component replacement would require the meter to be taken offsite, involving labour and component costs comparable to AusNet's meter unit rate.[31] We agree with AusNet that this option does not appear feasible.

AusNet proposed Option 1 as it delivered the lowest total cost and the highest net present value (**NPV**) compared to its base case option.[32] While the base case also mitigated rising meter failure risks, it involved earlier capex and did not benefit from the lower depreciation

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23 AusNet Services, *ASD - AusNet - Smart meter replacement business case model*, January 2025. The cost benefit analysis also included scenario analysis that focused on the commencement timing of the replacement program and the duration of the replacement period.

24 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 4.

25 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 6.

26 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 4.

27 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 5.

28 AusNet Services, *AusNet EDPR 2026–31 – information request #048 – Metering*, July 2025, Q1b.

29 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 8.

30 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal -31 Jan 2025*, January 2025, p. 347.

31 AusNet Services, *AusNet EDPR 2026–31 – Information request #030 – Meter Replacements*, June 2025 Q5c.

32 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 3.

and return on costs associated with delaying meter replacement. Option 1 deferred investment by 2 years while still managing the risk of performance issues, offering what was considered a more cost-effective balance between investment timing and service reliability. Option 2 was assessed to carry significant compliance and customer service risk and had a negative NPV.

We have assessed AusNet's cost-benefit analysis, including the specific inputs. We have a number of concerns with this analysis. In particular:

- We consider that AusNet could have provided clearer explanation and supporting modelling for its proposal and options. We also noted inconsistencies between its cost-benefit analysis and the metering expenditure model, likely due to version control issues / updates. Specifically, the expenditure for proactive and reactive replacement did not reconcile between the two models and reflects different replacement volumes used in the models. However, this did not affect our overall assessment or influence our consideration.
- The cost-benefit analysis did not include replacement on failure as a base case, despite this being AusNet's current approach.[33] While this was partly incorporated in the modelling for Option 1 and 2 (with a delayed / deferred proactive replacement start) we would have expected it to be the base case and to be compared against the proactive replacement options. We consider the approach used by AusNet limits the ability of the cost-benefit analysis to evaluate whether a proactive approach is more cost-effective than continuing with a reactive approach, while meeting metering obligations.
- When requested AusNet provided cost-benefit modelling of a replacement on failure case. However, AusNet did not consider this a credible option as it could not reasonably assume that meter failure rates remain consistent with historical levels observed when meters were 'younger', and that memory degradation would not occur over time.[34] AusNet also stated that there is no international evidence of smart meters operating beyond 20 years. Further, through engagement with its meter provider, AusNet has been advised that the assets are likely to experience non-linear failure beyond their 15-year design life. We acknowledge that meter failure rates will increase over time, and the evidence AusNet has provided in relation to this occurring. However, we consider that these increased failure rates should be used to inform the modelling of replacement on failure. Further, that this would likely demonstrate that replacement on failure is not efficient, particularly when compared to the proactive replacement options.
- The 20% labour cost efficiencies associated with the proactive replacement efficiency[35] are less than those assumed by other Victorian distributors. AusNet stated that the 20% reflects volume efficiencies by grouping in a specific time many meters that need to be replaced within geographic region.[36] It also stated that this could be further discounted to around 30% but would involve additional management resources and potentially replacement of meters before it is efficient to do so. Our benchmarking suggests that

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33 AusNet Services, *ASD - AusNet - Smart meter replacement business case model*, January 2025.

34 AusNet Services, *AusNet EDPR 2026–31 – information request #048 – Metering*, July 2025, Q5.

35 AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 5.

36 AusNet Services, *AusNet EDPR 2026–31 – information request #048 – Metering*, July 2025, Q1b.

AusNet's proposed time to undertake proactive meter replacements is higher than CitiPower, Powercor and United Energy (see section A.5.1.5). This suggests that AusNet could achieve higher labour cost efficiencies in the proactive replacement of meters.

- We note that in our bottom-up analysis, and benchmarking of the proposed replacement rates and meter unit costs (using data from the Victorian distributors' standardised metering expenditure models)[37] we found that the replacement rates and meter costs proposed by AusNet's are broadly comparable / benchmark well. Given this we accept AusNet's proposed meter unit costs. In terms of its meter replacement rate, as AusNet proposed a delayed commencement to its replacement program, we adjusted its replacement volumes over a 5-year period to benchmark against the other Victorian distributors. Based on our 5-year benchmarking we found that AusNet's proposed replacement volumes are broadly comparable to those proposed by CitiPower, Powercor, and United Energy and our draft decision position for Jemena.
- There was a lack of transparency and clarity regarding some of AusNet's modelling inputs. This included AusNet's proactive replacement costs being a sum of the meter unit costs and labour rate. In our assessment of these inputs we have assumed that these line items correspond with the smart meter categories listed in the metering expenditure models. Further, the timeframes in the cost benefit analysis did not match those in AusNet's business case document (14 years versus 13 years respectively).[38]

Despite these concerns, we accept the need across Victoria, and therefore for AusNet, to undertake a proactive meter replacement program in the 2026–31 period. However, we do not accept AusNet's proposed meter replacement capex and, in light of our benchmarking, have reduced the labour component of the proactive replacement unit rates to reflect a higher efficiency compared to reactive replacement. Specifically, to apply 60% of the labour time used for a reactive replacement for single-phase meters and multi-phase meters other than those with current transformers (reflecting 40% efficiency compared to reactive replacement).

AusNet's Coordination Group provided a report in response to AusNet's proposal.[39] As set out in section 20.2.4, it noted that while stakeholder engagement on this issue was more limited, the proposal considered stakeholder views and customer agency and reflected these considerations. Separate to this we note AusNet had discussions at a Future Networks Panel session, where customer representatives endorsed an approach that would smooth the cost

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37 CitiPower, *CP MOD 11.03 – Standardised metering capex and opex*, January 2025; Powercor, *PAL MOD 12.03 – Standardised metering capex and opex*, January 2025; United Energy, *UE MOD 12.03 – Standardised metering capex and opex*, January 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 - Metering Capex and Opex Model*, January 2025; Jemena, *JEN – Att 10-03M ACS Metering opex and capex model,* January 2025.

38 AusNet Services, *ASD - AusNet - Smart meter replacement business case model*, January 2025 (See: '2.1_BC'!L36:Y36; '2.1_Op1'!N36:AA36; '2.1_Op2'!R26:W26); AusNet Services, *ASD - AusNet - Business case for smart meter replacement*, January 2025, p. 2.

39 AusNet Coordination Group, *Submission - Victorian electricity distribution proposals 2026–31,* May 2025 p. 30.

impact and inquired about the effects of deferring meter replacement without adversely impacting customers.[40] No other submissions were received.

In addition to the cost benefit analysis, we also considered procurement and deliverability, both in terms of availability of meters and labour, and the scale of the proactive replacement proposed. This included with the context of concurrent implementation of a Victorian proactive replacement program and the smart rollout in the wider NEM.

AusNet, and the other Victorian distributors, all considered that the risk of meter shortages and limited supplier capacity is low as forecast volumes for each Victorian distributor only represent a small portion of the global metering market.[41] We note meter vendors are international suppliers with broad manufacturing capability. Therefore, we consider it unlikely the forecast volumes over the 2026–31 period will be constrained by meter availability.

Further, AusNet noted that under its proposed option there is at least 26 months of lead time for its procurement following the AER's final decision in April 2026. It therefore did not consider there were any meter procurement concerns.[42] In this context it noted that it considers at a minimum 9 months is required for the necessary procurement activities and another 9 months may be required for system integration of any new technology. We acknowledge that due to AusNet's delayed commencement of proactive replacement, it has a longer lead time to undertake procurement processes before the proactive replacements commence. Further, that this should mean its processes are not impacted by the expected update to the Victorian Advanced Metering Infrastructure Minimum Functional Specification.

In terms of labour, AusNet stated that it intends to apply a similar labour strategy to its 2009 rollout and noted the proposed volume of replacements does not exceed any annual volumes of that period.[43] It also stated it will rely on external field service providers to provide a range of electrically qualified and certified field technicians for these roles. Given this, and that the approach will be similar to that previously employed, we are reasonably assured that labour should be available to resource the proactive replacement.

Together, we are not concerned by AusNet's ability to procure the necessary meters and labour to deliver its proposed replacement program.

We also considered the deliverability of AusNet's proposed proactive replacement volumes relative to its current rate of meter replacements on failure. AusNet's proposed proactive replacement program adopts a step up over its first 2 years (2028–29 and 2029–30). While

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40 AusNet Services, *AusNet EDPR 2026–31 – information request #030 – Meter Replacements*, June 2025, Q5a.

41 CitiPower, *CitiPower EDPR 2026–31 – information request #032 – Metering*, June 2025, Q3a; Powercor, *Powercor EDPR 2026–31 – information request #032 – Metering*, June 2025, Q3a; United Energy, *United Energy EDPR 2026–31 – information request #029 – Metering*, June 2025, Q3a; AusNet Services, *AusNet EDPR 2026–31 – information request #048 – Metering*, July 2025, Q5a; Jemena, *Jemena EDPR 2026–31 – information request #022 – Metering Replacement*, July 2025, Q3a.

42 AusNet Services, *AusNet EDPR 2026–31 – information request #030 – Meter Replacements*, June 2025, Q2.

43 AusNet Services, *AusNet EDPR* 2026–31 – *information request #030 – Meter Replacements*, June 2025, Q3a.

an increase relative to the replacement on failure volumes, we consider the proposed step up over 2 years is a reasonable approach and likely to be deliverable.

A.5.1.2 Meter growth

Our draft decision is to accept AusNet's proposed volume of new meter installations over the 2026–31 period at an annual growth rate of 2.1%.[44] This reflects that AusNet's proposed annual growth rates are consistent with its historical average annual growth rate of 2.0%[45], with a slight increase following slower growth during and after COVID-19 lockdowns, as well as new meters requiring installation to support the shift away from gas connections. These growth rates are supported by our assessments of growth rates for metering opex, as well as SCS opex (see Attachment 3).

A.5.1.3 Reactive meter replacement

Our draft decision is to accept AusNet's proposed volume of reactive replacement of meters on fault or failure for the 2026–31 period at an annual replacement rate of 0.5%.[46] This reflects that AusNet's proposed replacement rates are consistent with its historical average annual replacement rate of 0.5%.[47] We consider reactive replacements could increase in the 2026–31 period as meters reach end of life and become more likely to fail, however we note this is likely offset by AusNet's proactive replacement being based on memory degradation events and that these failures are instead captured by the proactive replacement program. As a result, we consider that historical replacement rates are reasonable. The capex for these reactive replacements is a product of the same meter and labour unit costs discussed at sections A.5.1.4 and A.5.1.5.

A.5.1.4 Meter installation – unit costs

Our draft decision is to accept AusNet's proposed meter unit costs for the 2026–31 period.[48] AusNet's proposed meter unit costs are broadly consistent with those approved in the 2021–26 period, and benchmark well against those proposed by the other Victorian distributors.

A.5.1.5 Meter installation – labour costs

Labour costs are the product of the labour rate and average labour time for the relevant activity. We also apply our draft decision labour cost escalators to reflect wage price growth consistent with the rest of our draft decision.

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44 AER analysis; AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

45 For the 2020–21 to 2023–24 years. AER analysis; AusNet Services, *ASD – AusNet – RIN Workbook 2 – historical*, January 2025.

46 AER analysis; AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

47 For the 2020–21 to 2023–24 years. AER analysis; AusNet Services, *ASD – AusNet – RIN Workbook 2 – historical*, January 2025.

48 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

Our draft decision accepts AusNet's proposed labour rate for the 2026–31 period[49] as it is lower than the maximum efficient labour rate for an electrical tester (equivalent to field worker) of $215 per hour ($2025–26) that we applied in our draft decision for ancillary network services (see Attachment 14). We consider that the electrical tester/field worker is the highest possible level of skilled worker required for such replacement, with the only higher skill level being that of a senior engineer. We do consider that most installations will be able to be achieved at lower skill levels, as evidenced by lower labour rates proposed by other Victorian distributors, and encourage AusNet to identify opportunities to reduce this labour cost where possible.

We benchmarked estimated labour time for reactive replacements on fault or failure across the Victorian distributors' proposals. We then considered the estimated labour time in relation to the proactive replacement program, and how the efficiencies of proactive replacement presented as a discount from the estimated labour time for reactive replacements, and how these efficiencies compared across the Victorian distributors.

AusNet proposed estimated labour time for reactive replacements that benchmarked well for most meters.[50] AusNet proposed estimated labour times for proactive replacement that reflected the reactive replacement labour times discounted by 20%.[51] We consider that this reflects an estimated 20% efficiency associated with proactively replacing meters. These efficiencies did not benchmark well across the Victorian distributors, and AusNet noted they may achieve higher efficiencies although this would come with more intensive replacements and need more program management resources.[52]

We consider that AusNet has understated the potential efficiencies associated with proactive replacement, and our draft decision applies a 40% efficiency rate broadly consistent with that proposed by CitiPower, Powercor, and United Energy (**CPU**) for most meters (and effected through a 40% discount from reactive replacement labour times). This reflects that AusNet's proposal in relation to proactive replacement will result in geographic clustering of activity, including as memory degradation is likely highly correlated with the age of the metering assets, and this is closely aligned with the geographic basis of the original smart meter roll out. We also consider the delayed commencement provides more opportunity to prepare for the proactive replacements and plan for such efficiencies.

We have retained AusNet's proposed 20% efficiency for multi-phase CT meters, as this is greater than the 10% efficiency proposed by CPU.

A.5.1.6 Other meter-related capex

Our draft decision is to accept AusNet's proposed capex related to customer-initiated replacements, the replacement of legacy meters, pole-top meter housing, and overheads.

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49 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

50 AER analysis; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

51 AER analysis; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

52 AusNet Services, *AusNet EDPR 2026–31 – information request #048 – Metering*, July 2025.

Our draft decision, which reflects other updated modelling inputs (such as updates for inflation and labour escalators), is set out in Table A.5.

Table A.5 Draft decision other capex ($million, 2025–26)

Category	2026–31 proposal	2026–31 draft decision	Change from proposal
Customer-initiated replacements	10.5	10.4	-1.2%
Replacement of legacy meters	2.2	2.2	-0.1%
Pole-top meter housing	4.1	4.1	-0.5%
Overheads	7.2	7.4	3.6%

Note: Categorised expenditure is presented in this table inclusive of expenditure allocated to SCS.
Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AER, *Metering expenditure model – Draft Decision – AusNet Services – distribution determination 2026–31,* September 2025.

We consider the volumes of customer-initiated replacements and legacy meter replacements to be in line with what we would expect for the 2026–31 period. Specifically, there is an increase in customer-initiated replacements to support the shift away from gas connections and the adoption of electric vehicles, and a requirement to replace legacy meters that remain on the network to meet the 100% rollout of smart meters by 2030 as mandated by the AEMC.[53] The capex for these activities is a product of the same meter and labour unit costs discussed at sections A.5.1.4 and A.5.1.5.

AusNet's proposed capex related to pole-top meter housing is intended to support 100% adoption of smart meters. AusNet noted that providing pole-top (or fence-line) meter housing will help provide smart metering options to those that have been unable or unwilling to have a smarty meter on their premises due to health issues/fears.[54] We consider this proposed capex is prudent and efficient, supporting the intention of 100% rollout of smart meters by 2030[55], and relatively immaterial in nature (less than 2% of AusNet's proposed capex).

We consider AusNet's proposed capitalised overheads rate of 5% is acceptable, being lower than the 10% approved for the 2021–26 period, slightly lower than capitalised overheads for SCS, and in line with its cost allocation methodology.[56]

A.5.2 Communications capex

Communications capex for metering services consists of the installation and replacement of communications assets to support the remote capabilities of smart meters. This includes equipment such as access points and relays, antennas, modems, and batteries.

53 AEMC, *Final rule determination, Accelerating smart meter deployment*, November 2024, pp. 1–2.

54 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 341.

55 AEMC, *Final rule determination, Accelerating smart meter deployment*, November 2024, pp. 1–2.

56 AusNet Services, *AusNet Electricity Services (Vic) – Cost Allocation Methodology*, September 2019, p. 23.

Our draft decision is for a total communications capex for metering services of $8.3 million ($2025–26) for AusNet over the 2026–31 period.[57] This is a decrease of $0.01 million ($2025–26) or 0.1% from AusNet's proposed total communications capex of $8.3 million ($2025–26) for this period.[58] Our draft decision communications capex is set out in Table A.6.

Table A.6 Draft decision communications capex ($million, 2025–26)

Category	2026–31 proposal	2026–31 draft decision	Change from proposal	Draft decision prop. of total comms capex
Growth – equipment	5.5	5.4	-1.2%	32.6%
Growth – installation	0.4	0.4	3.2%	2.5%
Replacements – equipment	7.3	7.2	-1.2%	43.0%
Replacements – installation	2.7	2.8	4.6%	17.0%
Overheads	0.8	0.8	-0.1%	4.8%
Net total (including SCS allocations)	**16.7**	**16.7**	**-0.1%**	
Net total (excluding SCS allocations)	**8.3**	**8.3**	**-0.1%**	

Note: Communications capex includes 50% of expenditure allocated to SCS. Categorised expenditure is presented in this table inclusive of expenditure allocated to SCS.
Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31,* September 2025.

AusNet proposed communications capex that is consistent with the allowed expenditure for the 2021–26 period. AusNet's growth and replacement rates are mostly consistent with historical rates and benchmarked well across the Victorian distributors' proposals. AusNet equipment costs benchmarked well against the other Victorian distributors, with some costs being on the higher end (but not the highest). AusNet's installation costs, reflecting the labour costs required to install the different equipment types, were the lowest of all the Victorian distributors, and were only 7% to 54% of the highest costs proposed across different communications equipment.

Considering AusNet's low installation costs and that the equipment costs and growth and replacement rates benchmarked well across the Victorian distributors, we have accepted AusNet's proposed inputs to communications capex. Our draft decision communications capex varies slightly as it reflects updates to other modelling inputs (such as inflation and labour escalators).

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57 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

58 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

A.5.3 Information technology capex

Information technology (**IT**) capex for metering services consists of expenditure on IT systems to manage metering data for billing and network management purposes, for asset management, or to make the most of the capabilities of smart meters. This expenditure can be recurrent for regular upgrades and security updates, or non-recurrent for time-in-point investments or overhauls of systems.

Our draft decision is for a total IT capex for metering services of $10.4 million ($2025–26) for AusNet over the 2026–31 period.[59] This is a decrease of $3.3 million ($2025–26) or 24.0% from AusNet's proposed total IT capex of $13.8 million ($2025–26) for this period.[60] Our draft decision IT capex is set out in Table A.7.

Table A.7 Draft decision IT capex ($million, 2025–26)

Category	2026–31 proposal	2026–31 draft decision	Change from proposal	Draft decision prop. of total IT capex
Lifecycle upgrades – smart meters	6.7	6.7	-0.4%	42.2%
Lifecycle upgrades – legacy meters	1.2	1.2	-0.5%	7.7%
Lifecycle upgrades - power quality data management	3.6	3.6	-0.4%	22.7%
Data management	3.6	3.6	-0.4%	22.7%
Flexible trading arrangements	3.1	-	-100.0%	-
Overheads	0.9	0.7	-18.2%	4.6%
Net total (including SCS allocations)	**19.2**	**15.8**	**-17.4%**	
Net total (excluding SCS allocations)	**13.8**	**10.4**	**-24.0%**	

Note: Lifecycle upgrades – smart meters and power quality data management include 50% of expenditure allocated to SCS. Categorised expenditure is presented in this table inclusive of expenditure allocated to SCS.
Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31,* September 2025.

AusNet proposed recurrent IT capex for lifecycle upgrades and management of systems, particularly in relation to systems that collate metering data for both smart and legacy meters, as well as real-time monitoring of power voltage at premises. AusNet noted that this expenditure reduced security and reliability risks by adhering to vendor suggestions. AusNet

59 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31*, September 2025.

60 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering Capex and Opex Model*, January 2025.

demonstrated cost and risk assessments as well as options analysis undertaken, with the proposed options balancing cost and risk and sufficient augmentation to current systems, as opposed to completely new systems, or minimal ad-hoc augmentation the introduces higher risk.[61]

AusNet also proposed non-recurrent IT capex relating to enhancement of data management systems to accommodate higher volumes of metering data for 5-minute settlement requirements.[62] This reflects the increase of new meters proposed to be installed in the 2026–31 period that are required to produce data in 5-minute increments, rather than the historical 30-minute increments. This proposed expenditure is supported by the expenditure that was approved for the other Victorian networks in the 2021–26 period for this capability but was not required by AusNet at the time.

AusNet further proposed non-recurrent IT capex relating to enhancement of data management systems to support new flexible trading arrangements for the incoming type 8 and 9 meters.[63] This reflects a recent rule change that introduces these new types of meters that introduces more flexibility and support for emerging technologies.[64] Due to the unique arrangements in Victoria that allow for smart meters to be considered part of regulated metering services, and with these new meters not being covered by these considerations, there is uncertainty about where expenditure to support data management for these unregulated services should be recovered. This is discussed further in Attachment 11.

We assessed AusNet's proposed IT capex and supporting information from its proposal to determine if it was prudent and efficient. We consider the recurrent IT capex was sufficiently justified and that the balancing of costs and risks was reasonable. We consider the non-recurrent IT capex to support increasing volumes of data for 5-minute settlement requirements was prudent, reflecting the lack of expenditure in this area in the 2021–26 period. We do not consider the non-recurrent IT capex to support flexible trading arrangements is able to be considered in metering expenditure at this point due to the uncertainty of these arrangements in Victoria at this time. As such, we have removed this $3.1 million ($2025–26) to support flexible trading arrangements from the total IT capex and approved all else. We consider that this capex does not fall into the grouping of services under the metering services classification that currently exists. As such, it should be reproposed as SCS unless the type 8 and 9 metering services are categorised as type 5 and 6 metering services for the purpose of regulation through a change in the Victorian legislative arrangements managed by the Victorian Government.

A.6 Operating expenditure

Our draft decision is for a total opex for metering services of $61.9 million ($2025–26) for AusNet over the 2026–31 period.[65] This is a decrease of $0.01 million ($2025–26) or 0.01%

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61 AusNet Services, *ASD – AusNet – Digital Business Case – Metering Systems*, January 2025, pp. 4–7.

62 AusNet Services, *ASD – AusNet – Digital Business Case – Metering Systems*, January 2025, pp. 8–11.

63 AusNet Services, *ASD – AusNet – Digital Business Case – Metering Systems*, January 2025, pp. 9–11.

64 AEMC, *Unlocking CER benefits through flexible trading, Rule determination,* August 2024.

65 AER, *Metering PTRM – Draft decision – AusNet Services 2026–31 Distribution determination revenue proposal*, September 2025.

from AusNet's proposed total opex of $61.9 million ($2025–26).[66] This reflects the base-step-trend estimate provided by AusNet adjusted for updates to labour cost escalation and inflation. Our draft decision opex is set out in Table A.8 and we discuss each of the base, trend and step components in the following sections.

Table A.8 Draft decision opex ($million, 2025–26)

Category	2026–31 proposal	2026–31 draft decision	Change from proposal	Draft decision proportion of total opex
Base opex	53.3	52.6	-1.2%	85.0%
Trend: Output growth	3.9	3.9	-1.2%	6.2%
Trend: Price growth	2.5	3.1	24.7%	5.0%
Total trend	6.6	7.2	9.2%	11.6%
Step change: Distributed intelligence	1.8	1.8	-1.2%	2.9%
Total step changes	1.8	1.8	-1.2%	2.9%
Debt raising costs	0.3	0.3	22.9%	0.5%
Total opex	**61.9**	**61.9**	**0.0%**	

Source: AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025; AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31,* September 2025*;* AER, *Metering PTRM – Draft decision – AusNet Services 2026–31 Distribution determination revenue proposal*, September 2025.

A.6.1 Base opex

If we find the distributor is operating efficiently, our preferred methodology is to use the distributor's historical or 'revealed' costs in a recent year as a starting point for our opex forecast.

AusNet proposed 2023–24 opex as the base year. Its actual opex in 2023–24 is lower than opex in previous years and lower than allowed for in the 2021–26 period.[67] We consider that 2023–24 is an appropriate base year for our draft decision and have accepted AusNet's proposed base year and the actual opex in that year. No adjustments to the base were proposed.[68]

A.6.2 Rate of change (trend)

We trend the adjusted base opex forward by applying our forecast 'rate of change'. We estimate the rate of change by forecasting the expected growth in input prices and outputs.

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66 AusNet Services, *ASD – AusNet EDPR 2026–31 – ACS – Metering PTRM*, January 2025.

67 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, pp. 353–354.

68 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 354.

Our draft decision applies labour cost escalators consistent with SCS to forecast the expected growth in input prices. For more information, see Attachment 3.

Our draft decision also applies AusNet's proposed change in meter volumes to calculate the expected growth in outputs.[69] This reflects AusNet's proposed growth rates are consistent with historical growth, with a slight increase following slower growth during and after COVID-19 lockdowns, as well as new meters requiring installation to support the shift away from gas connections. These growth rates are supported by our assessments of growth rates for metering capex (section A.5.1.2), as well as SCS opex (Attachment 3).

A.6.3 Step changes

Lastly, we add or subtract any components of opex that are not appropriately compensated for in base opex or the rate of change, but which should be included in the forecast total opex to ensure prudent and efficient costs are recovered.

Our draft decision accepts AusNet's proposed metering step change to fund the rollout of distributed intelligence capabilities from 2028–29.[70] AusNet stated distributed Intelligence and Wi-Fi capabilities will provide customers access to their metering data in near real time through a Wi-Fi interface. AusNet also proposed to use this capability to embed their network analytics of smart meter data into their meters and improve response times to issues.[71]

We consider the proposed step change is prudent and efficient. The step change reflects the expected costs for the licensing required for all new meters to support future capabilities of meters.[72] This includes processing and managing data more locally across the network and providing access to real-time data for consumers.[73] We also consider this investment appropriate to deliver functionality that AusNet expects to be mandatory from 2028 under the real-time data for consumers rule change.[74]

We considered whether the unit rate for the Distributed Intelligence licence fee is efficient. AusNet described the costs in the proposed step change as being based on indicative vendor pricing and subject to a trial and competitive market procurement processes. [75] We consider this basis and therefore the costs to be reasonable.

This step change is dependent on the proactive replacement of meters as each new meter is assumed to have Distributed Intelligence and Wi-Fi capabilities.[76] Any changes in the revised proposal to the proactive replacement program will need to flow through to this step change.

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69 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31,* September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025.

70 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31,* September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025.

71 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 354.

72 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, pp. 353–354.

73 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, pp. 353–354.

74 AEMC, *Directions Paper Real-time data for consumers*, January 2025, pp. iv–v.

75 AusNet Services, *AusNet EDPR 2026–31 – information request #048 – Metering*, July 2025.

76 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 353.

A.7 Expenditure allocated to SCS

Our draft decision does not accept AusNet's proposed allocations of metering expenditure to SCS. Our draft decision removes proposed allocations for direct metering capex. Our draft decision does apply AusNet's proposed allocation revisions to communications assets to a 50% allocation to SCS from 6% in the 2021–26 period and a 50% allocation of data management systems capex to SCS, from 0% previously.[77]

We considered the allocations of metering expenditure to SCS in the 2021–26 determinations for Victorian distributors, reflecting the increasing use of metering data for uses other than billing, including voltage management and other network operations.[78] We considered the main causal allocator for SCS allocations to be data volumes. In our 2021–26 determinations we established the expectation that any proposed changes to allocations going forward would need to be supported by comprehensive cost-benefit analysis, including efficiencies gained and how those efficiencies manifest in SCS cost savings, and any alternative causal factors.

While AusNet did not justify its proposed changes in line with the expectations set out in the 2021–26 determination, it did note the regulatory changes around voltage management compliance as reasoning to adjust these allocations. We consider this is sufficient justification for the proposed 50% allocations for communications assets and data management systems. Particularly given both the regulatory changes and increasing data volumes that need processing as a result of new meters with 5-minute settlement capabilities being installed.

AusNet included SCS allocation rates for different metering capex activities in its modelling, including 11% for proactive replacement, 17% for growth, 9% for replacement upon fault/failure, 14% for customer-initiated replacement, 11% for legacy meter replacement, and 20% for pole-top meter housing.[79] AusNet did not discuss these SCS allocation rates in its proposal or justify the allocations when requested to reconcile the allocation rates against what was proposed. As such, we have removed these SCS allocation rates from our draft decision models, considering them as errors to be corrected. This means that all meter installations or replacements capex is recovered through metering services. We expect that these SCS allocation rates were potentially intended to reflect the metering component of these new meters, and welcome AusNet's proposal and justification of these SCS allocation rates in its revised proposal.

A.8 Pricing strategy

Our draft decision accepts AusNet's proposal to price legacy meters by escalating from its current prices by CPI. That is, the reductions in the metering services ARR will be delivered

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77 AER, *Metering expenditure model – Draft decision – AusNet Services distribution determination 2026–31,* September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025.

78 AER, *Final decision – AusNet Services distribution determination 2021–26 – Attachment 16 – Alternative control services*, April 2021, pp. 25–31.

79 AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Capex and Opex Model*, January 2025.

only to those with smart meters, and not to those who still have legacy meters, despite prices for both contributing to the ARR.[80]

While we generally consider that the increased cost of servicing legacy meters should be socialised,[81] we also consider it acceptable to send pricing signals to incentivise upgrading to a smart meter. AusNet's proposed approach to not deliver price reductions, but to not charge a cost reflective price, appears to sufficiently balance these two objectives. We also note that this was an issue AusNet consulted its stakeholders on and had broad support for.[82]

We also note that these services are revenue-capped and we set the allowed revenues through our 2026–31 determination and subsequent annual pricing processes. This means that AusNet ultimately has discretion on how it prices these services (within the bounds of other mechanisms, such as the side constraint mechanism).

A.9 Metering exit fees

Metering exit fees allow AusNet to recover the written down value, as well as the efficient costs of removing and disposing, of meters. An example of where these fees may occur is when an existing site with multiple meters, such as an apartment building, becomes an embedded network, resulting in the removal of existing meters from the RAB.

Our draft decision accepts AusNet's proposed approach to setting these price-capped fees, using the calculation of the RAB and the building blocks for metering services ARR, in line with the historical approach and the standardised metering pricing model template.[83] We substitute our metering exit fees to apply updates to forecast inflation and inputs related to the 2022 rate of return instrument, as well as our substituted capex and opex forecasts.

We note that we identified an issue in the metering pricing model template where the template does not treat differing cost basis of inputs correctly. We have adjusted the template to correctly identify and escalate these values.

The price caps applicable in the first year of the 2026–31 period, as well as the X factors to escalate those prices in subsequent years, are set out in Table A.9. These X factors are calculated based on the real difference between the calculated price caps for each year, based on the RAB and building blocks for metering services. Increases are represented by negative X factors, and decreases represented by positive X factors, as the price cap is escalated using the CPI-X form.

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80 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, pp. 350, 357–358.

81 SAPN, *Final Decision Attachment 20 – Metering Services – SA Power Networks – 2025–30 Distribution revenue proposal*, April 2025, pp. 2–3.

82 AusNet Services, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 350.

83 AER, *Metering pricing model – Draft decision – AusNet Services 2026–31 Distribution determination revenue proposal*, September 2025; AusNet Services, *ASD – AusNet EDPR 2026–31 – Metering Pricing Model*, January 2025.

Table A.9 Draft decision metering exit fee year 1 price caps ($2025–26) and year 2–5 X factors

Category	2026–27 price cap	2027–28 X factor	2028–29 X factor	2029–30 X factor	2030–31 X factor
Single phase meter	214.27	7.7%	-6.1%	-13.9%	-14.3%
Multi-phase meter	219.92	7.8%	-6.2%	-14.3%	-14.7%
Multi-phase meter CT	242.94	8.4%	-6.6%	-15.5%	-16.0%
Other	390.85	11.0%	-7.7%	-19.2%	-19.8%

Source: AER, *Metering pricing model – Draft decision – AusNet Services 2026–31 Distribution determination revenue proposal*, September 2025.

The price path over the 2026–31 period reflects the increases in the RAB that result from the proactive replacement program. For AusNet, where the proactive replacement program has a delayed start, this comes after decreases in the first few years. We are concerned that the price paths for exit fees, where there is expected increases over the coming 2026–31 period and beyond, may incentivise exiting activities.

We intend to consider whether it is appropriate to smooth this price path, likely adopting a flat price path in years 2–5 as per our smoothing approach for metering revenues, in our final decision. As such, we encourage AusNet to consider this as part of its revised proposal. We also encourage stakeholders to provide feedback in response to our draft decision and AusNet's revised proposal on this matter.

A.10 Cost pass through mechanism

The Victorian distributors' proposals all included expenditure (either in metering services or in SCS) to support services that may become regulated as a result of upcoming legislative changes. We have not accepted these proposed expenditures at this time as the legislative changes are yet to occur, and therefore there is uncertainty about where this expenditure should be recovered. If this uncertainty continues into the final decision, the distributors may not be allowed expenditure to cover these regulatory changes that may arise within the 2026–31 period.

The NER provides a cost pass-through framework for SCS to enable distributors to recover the costs of defined yet unpredictable, high-cost events that are not built into the distribution determination. We are seeking views about a proposed approach for considering and implementing any metering cost pass-throughs via the annual pricing process, which we consider has a level of administrative burden that is more relative to the magnitude of metering services revenues.

This is set out in Attachment 12 and we seek feedback on the proposed approach.

Shortened forms

Term	Definition
2026–31 period	2026–31 regulatory control period
ARR	Annual revenue requirement
AusNet	AusNet Services
Capex	Capital expenditure
CPI	Consumer price index
CPU	CitiPower, Powercor, and United Energy
IT	Information technology
NEM	National Electricity Market
NER	National Electricity Rules
NPV	Net present value
Opex	Operating expenditure
PTRM	Post tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model
RIN	Regulatory information notice
SCS	Standard control services
WACC	Weighted average cost of capital