Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 3 – Operating expenditure

September 2025

AUSTRALIAN ENERGY REGULATOR

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3 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. Forecast opex is one of the building blocks we use to determine a service provider's annual total revenue requirement.

This attachment outlines our assessment of AusNet's proposed opex forecast for the 2026–31 regulatory control period.

3.1 Draft decision

Our draft decision is to not accept AusNet's total opex forecast of $1,700.3 million[1], including debt raising costs, for the 2026–31 regulatory control period.[2] This is because our alternative estimate of $1,504.2 million is materially different ($196.1 million, or 11.5% lower) than AusNet's total opex forecast proposal. Therefore, we consider that AusNet's total opex forecast does not satisfy the opex criteria.[3]

This material difference is primarily driven by our alternative estimate not including or including lower alternative estimates for 10 of the 11 proposed step changes. We discuss our reasons in section 3.3.4.

Our draft decision, which is less than AusNet's proposed total opex forecast, is:

- $70.7 million (or 4.5%) lower than the opex forecast we approved in our final decision for the 2021–26 regulatory control period.
- $40.0 million (or 2.7%) higher than AusNet's actual (and estimated) opex in the 2021–26 regulatory control period.

In our final decision we will update for any required mechanical adjustments (e.g. latest inflation and labour price growth forecasts). We also encourage AusNet in its revised proposal to include the further information we have requested (outlined in Attachment 2, section A.5.3) for the proposed Digital step change.

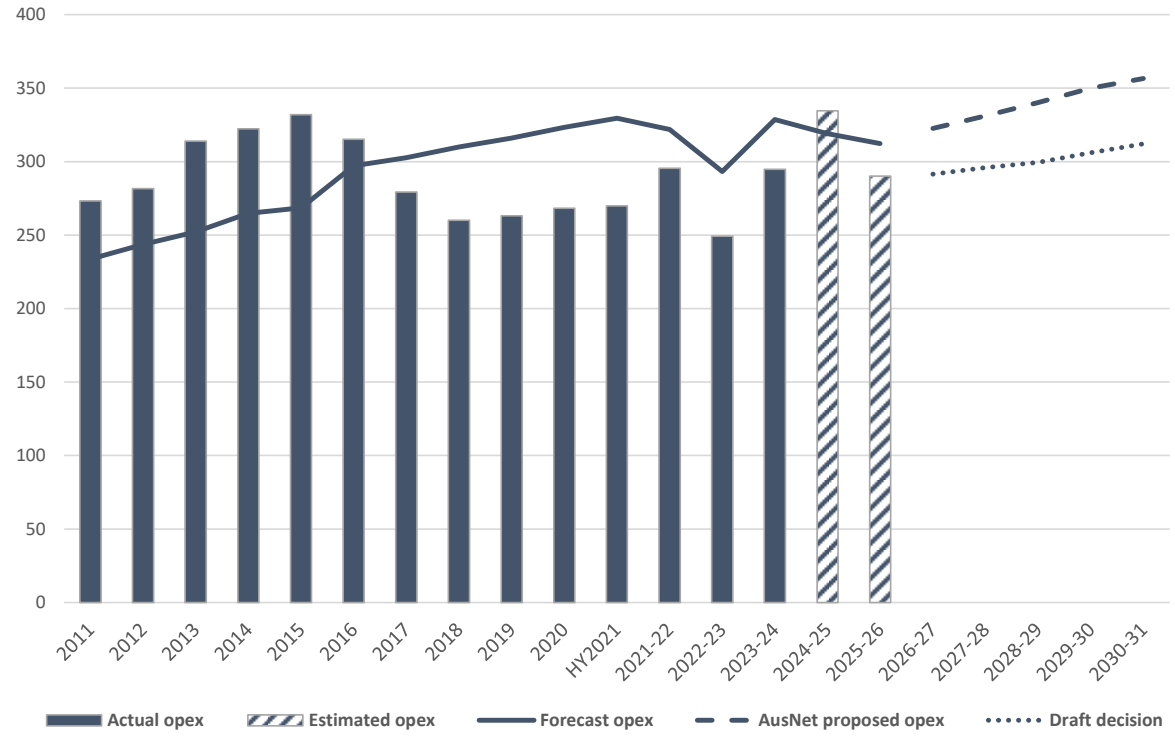
In Figure 3.1 we compare our alternative estimate of opex to AusNet's proposal for the next regulatory control period. We also show the forecasts we approved for the last two regulatory control periods and AusNet's actual and estimated opex over these periods.

1 All dollars are in this document are in $2025-26 terms unless otherwise stated.

2 AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025.

3 NER, cl. 6.5.6(c)-(e).

Figure 3.1 Historical and forecast opex ($million, 2025–26)



Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER, *AusNet Services Distribution PTRM - 2025-26 Return on debt update (inc storm and VEBM CPT),* March 2025; AER, *AusNet Services distribution determination - 2020 debt update (including REFCL contingent project T3) – PTRM,* October 2019:AER, *Victorian distribution determination final decision 2011-2015,* October 2010; AER analysis.

Table 3.1 sets out AusNet's opex proposal, our alternative estimate for the draft decision and the differences between these forecasts.

Table 3.1 Comparison of AusNet's opex proposal and our alternative opex estimate ($million, 2025–26)

	AusNet's initial proposal	Our alternative estimate	Difference ($)
Based on reported opex in 2022–23	**1,353.7**	**1340.4**	**–13.3**
Base year adjustment: Corporate overheads	20.3	20.0	–0.3
Base year adjustment: Property	–2.5	–2.5	0.0
Base year adjustment: Licence fees	–	–4.8	–4.8
Total Base year adjustments	**17.8**	**12.7**	**–5.2**
Non- recurrent efficiency gain	**–**	**23.4**	**23.4**
Remove category specific forecasts	**–39.3**	**–37.6**	**1.7**
2022–23 to 2025–26 final year increment	**97.5**	**97.5**	**–0.0**

	AusNet's initial proposal	Our alternative estimate	Difference ($)
Trend – Output growth	57.4	41.8	–15.6
Trend – Price growth	24.8	26.4	1.6
Trend – Productivity growth	–21.6	–21.7	–0.1
Total trend	**60.6**	**46.5**	**–14.1**
Step change: Flexible services	8.5	–	–8.5
Step change: ESV more frequent pole inspections	8.0	–	–8.0
Step change: Fleet Electrification	–0.7	–0.7	–0.0
Step change: Digital (SaaS, Licences)	39.9	13.3	–26.7
Step change: Early Fault Detection Rollout	7.8	–	–7.8
Step change: Digital Efficiencies	–3.9	–	3.9
Step change: Preparedness and Response	9.2	–	–9.2
Step change: Resilience (Hazard tree program)	15.0	–	–15.0
Step change: CRM and communications	15.7	–	–15.7
Step change: Emergency Backstop Mechanism	21.6	5.4	–16.3
Step change: Insurance	10.5	–	–10.5
Negative step change Insurance	–	–58.1	–58.1
Total step changes	**131.7**	**–40.2**	**–171.9**
GSL	54.0	43.5	–10.5
Innovation Fund	7.7	2.4	–5.2
Debt raising costs	16.6	15.7	–1.0
Total category specific forecasts	**78.2**	**61.6**	**–16.7**
Total	**1700.3**	**1504.2**	**–196.1 (–11.5%)**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to total due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

The key differences between AusNet's opex proposal, which we have not accepted, and our alternative estimate are that we have:

- not included the following step changes: Flexible services, more frequent pole inspections, Early Fault Detection rollout, Digital efficiencies, Preparedness and response, Hazard tree program, Customer relationship management and broad

communications, and Insurance ($70.8 million in total). We discuss these in section 3.3.4.

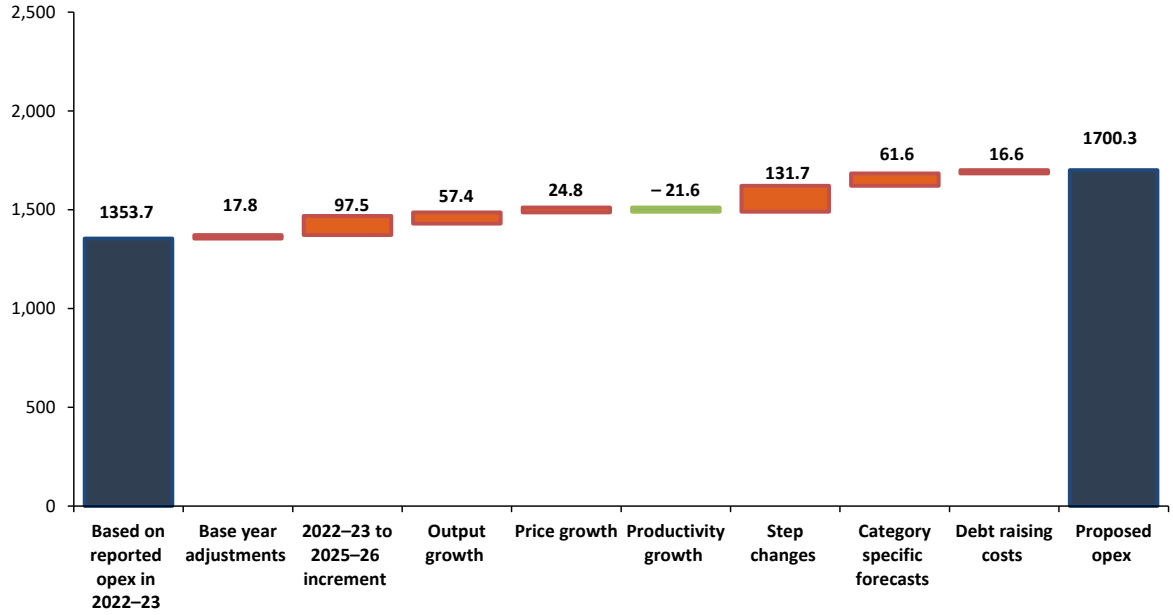
- included lower alternative estimates for the Digital ($26.7 million lower) and Emergency Backstop Mechanism ($16.3 million lower) step changes. We discuss these in section 3.3.4.
- included a negative insurance step change for forecast opex to satisfy the opex criteria and to treat the significant insurance premium underspends as non-recurrent efficiency gains. (–$58.1 million). We discuss this in section 3.3.4.12.
- included a non-recurrent efficiency gain, equal to the insurance premium underspend in the base year, to satisfy the opex criteria and to share the significant insurance premium underspends with network users (EBSS) ($23.4 million). We discuss this in section 3.3.4.12.
- applied our output growth forecast rather than AusNet's, reducing forecast opex by $15.6 million. We discuss this further in section 3.3.3.2.
- Used the latest data for the inflation (consumer price index (CPI)).

3.2 AusNet's proposal

AusNet applied a base–step–trend approach to forecast opex for the 2026–31 regulatory control period, consistent with our standard approach.[4]

AusNet's approach to applying our base step trend approach is set out in Table 3.1 (above).[5] In Figure 3.2 below we show the different components that make up AusNet's opex forecast for the 2026–31 period.

Figure 3.2 AusNet's opex forecast ($million, 2025–26)



4 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* p. 229.

5 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* p. 229.

3.2.1 Stakeholder views

We received 5 submissions on the AusNet opex proposal from: AusNet's EDPR 2026–31 Coordination Group, Origin Energy, Victorian Greenhouse Alliance, AusNet's Innovation Advisory Committee and the Consumer Challenge Panel (CCP32).

Submissions did not raise strong views related to AusNet's opex proposal and were generally supportive. The Coordination Group questioned the necessity of the pole inspections step change and noted that while they were supportive of the consumer supported step changes, it was the AER's role to assess their prudency and efficiency. CCP32 emphasised that consumers look to the AER to check if the step changes meet the NER and wider regulatory framework[6]. On innovation, the Victorian Greenhouse Alliance proposed the AER develop an innovation allowance scheme[7], while AusNet's Innovation Advisory Committee urged the AER to allow innovation programs to be approved without specifying projects in detail over the entire period[8].

3.3 Reasons for draft decision

Our draft decision is to not accept AusNet's total opex forecast of $1,700.3. million, including debt raising costs, for the 2026–31 regulatory control period.[9] Our alternative estimate of $1,504.2 million is materially different ($196.1 million or 11.5% lower) from AusNet's total opex forecast proposal. Therefore, we are not satisfied that AusNet's total opex forecast satisfies the opex criteria, having regard to the opex factors.[10]

Table 3.1 (above) sets out AusNet's proposal, our alternative estimate that has informed this draft decision, and the difference between our alternative estimate and the proposal.

The main drivers for this difference are also set out in section 3.1 and we discuss each of the components of our alternative estimate, and our assessment of AusNet's proposal, below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

3.3.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider AusNet would need for the safe and reliable provision of electricity services over the 2026–31 regulatory control period. We discuss the choice of base year in section 3.3.1.1 and set out our analysis of the efficiency of base year opex in section 3.3.1.2.

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6 CCP32, *Submission – AusNet electricity distribution proposal 2026 – 2031*, May 2025, p.30.

7 Victorian Greenhouse Alliances, *Submission – AusNet electricity distribution proposal 2026 – 2031*, May 2025, p18.

8 AusNet IAC, *Submission – AusNet electricity distribution proposal 2026 – 2031,* May 2025 p.5.

9 AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model*, January 2025.

10 NER, cl. 6.5.6(c)-(e).

3.3.1.1 Proposed base year

AusNet proposed a base year of 2022–23 and base year opex of $270.7 million. This equates to $1,353.7 million over the five years of the next regulatory control period.[11]

AusNet's base year actual opex is $43.9 million, or 15.0%, lower than the forecast opex approved for that year and $30.6 million, or 10.9%, lower than the average actual opex over the period 2021–22 to 2023–24.[12]

AusNet submitted that 2022–23 is the most suitable base year because:[13]

- it is based on actual audited data.
- there were no abnormal events in 2022–23 that would make it unrepresentative of their typical operating environment.
- economic benchmarking and category analysis show that AusNet's 2022–23 base year is efficient compared to its peers.
- later years of the 2021–26 regulatory control period (2023–24 and 2024–25) were impacted by abnormal events such as the storms experienced in February 2024 and September 2024. As AusNet is unable to accurately adjust these years to remove the impact of the storm events, it strongly preferred not to select these years as the opex base year

Our expectations for a network's opex proposal is that a business should use a base year for which audited actual opex is available.[14] In practice, this typically means the third year of the current regulatory control period since this will be the most recent year for which audited actual opex data is available at the time a network submits its regulatory proposal. In AusNet's case, that would be 2023–24. However, as noted by AusNet, actual opex in 2023–24 was significantly higher than the prior years due to extreme weather and flooding. This resulted in higher GSL payments and higher costs from deploying resources to respond to the flooding.

While there will be year to year fluctuations in reported opex over the current regulatory period, we do not generally have concerns with the choice of base year due to the interaction with the EBSS, provided we find AusNet's opex in the base year to be efficient.[15] We consider it feasible to use 2022–23 as the base year as it is based on actual audited opex.

In our alternative estimate for the draft decision, we have updated the base opex amount for 2022–23 to $268.1 million, or $1,340.4 million over the next regulatory control period. The difference between AusNet's proposed amount and our alternative estimate is because:

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11 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025*, pp. 226–227.

12 AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER, *AusNet Services Distribution PTRM 2025–26 RoD update (inc storm and VEBM CPT), March* 2025; AER analysis.

13 AusNet, *ASD - AusNet - EDPR 2026–31 Regulatory Proposal,* January 2025, p 232.

14 AER, *Better Resets Handbook – Towards consumer–centric network proposals Update,* July 2024, p. 25.

15 See Attachment 5 Efficiency Benefit Sharing Scheme for further information.

- we removed Software as a Service (SaaS) cost ($1.4 million, nominal) in line with our approach for the treatment of mid-period accounting changes. AusNet agreed to this approach in further information requests.[16]
- we have used actual inflation for the year to August 2025 (Australian Bureau of Statistics) and the Reserve Bank of Australia's forecast of inflation for the year to June 2026, from its May Statement on monetary policy.[17]

3.3.1.2 Efficiency of AusNet's opex

As summarised in our Guideline, our preferred approach for forecasting opex is to use a revealed cost approach. This is because opex is largely recurrent and stable at a total level. Where a distribution business is responsive to the financial incentives under the regulatory framework, the actual level of opex it incurs should provide a good estimate of the efficient costs required for it to operate a safe and reliable network and meet its relevant regulatory obligations. However, we do not assume that the business's revealed opex is efficient. We examine the trend in opex and use our top-down benchmarking tools, and other assessment techniques, to test whether the business is operating efficiently historically and particularly in the base year.

We consider AusNet's estimate of its opex in 2022–23 is not materially inefficient as indicated by its opex trend over time and our benchmarking results. Accordingly, we have used AusNet's actual revealed costs in 2022–23 to develop our alternative estimate.

In terms of the trend in opex, Figure 3.1 shows AusNet's opex forecast for the next regulatory control period, its actual opex in previous regulatory control periods and our previous regulatory decisions.

Overall, AusNet's opex has been lower than our approved forecast in the first three years of the current regulatory control period. AusNet's estimated actual opex in the base year (2022–23) of $270.7 million is $43.9 million or 15.0% below the approved forecast opex for that year. AusNet's actual opex was also below our forecast for the first and third year of the current regulatory control period by $26.4 million and $33.9 million respectively. This is in the context of its actual average annual opex for 2021–22 to 2023–24, of $279.8 million, being $2.6 million higher than its average annual actual opex for the 2016–20 regulatory control period.

While increasing over time, AusNet's actual and estimated opex in the current regulatory control period (2021–26) is $110.7 million or 7.0% below our opex forecast.

In line with our standard approach, we have used our benchmarking tools and other cost analysis to assess and establish whether AusNet is operating relatively efficiently, both over

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16 AusNet, *Response to Information request #011*, 19 March 2025.

17 Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia*, released on 30 July 2025 (accessed on 31 July 2025: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/jun-quarter-2025); Reserve Bank of Australia (RBA), *Statement on monetary policy*, August 2025, (accessed on 12 August 2025: https://www.rba.gov.au/publications/smp/2025/aug/outlook.html#3-5-detailed-forecast-information).

time and in the base year. We conclude that AusNet performs well compared to other networks and is not materially inefficient.

Benchmarking the efficiency of AusNet's opex over time and in the base year

As set out in more detail in past decisions[18], in assessing base opex efficiency, our standard approach is to benchmark a business's efficiency on the basis of its average efficiency over time (using a period-average efficiency score from our econometric models). We consider that this is the appropriate place to start rather than initially looking at the efficiency of a single year (such as the base year) as this recognises that opex is generally recurrent, but with some degree of year-to-year volatility. Reflecting our conservative approach, we use a 0.75 benchmark comparison point (rather than 1.0) to assess the relative efficiency of distribution businesses. Businesses with a model-average score above 0.75 are "benchmark comparator businesses".

In terms of historical performance, our benchmarking results from the *2024 Annual Benchmarking Report* indicate that AusNet has been fairly efficient over the 2006–23 period when compared to other distribution businesses in the NEM.[19]

Figure 3.4 shows that over this period AusNet ranks sixth out of 13 distribution businesses based on the average efficiency scores from 4 economic benchmarking models. In particular, AusNet is a benchmark comparator business, with an average model score across the 2006–23 period of 0.80 and the 2012–23 period of 0.76, which are above our benchmark comparison point of 0.75, though more borderline than other benchmark comparator businesses.

The results from our opex Multilateral Partial Factor Productivity (MPFP) index number analysis from the 2024 Annual Benchmarking Report can be seen in Figure 3.3 (where a higher index score means more efficient). These show AusNet's relative efficiency has slowly trended down from 2006 to 2016, after which it improved to achieve a small level of catch-up to the average performing distribution businesses. While its relative performance trended down from 2006 to 2012, AusNet Services typically ranked in the top half of distribution businesses. From 2012 to 2016 AusNet's relative performance slipped to the middle to lower range of businesses. Since 2016, AusNet's opex productivity has improved substantially, but it has operated at the bottom of the middle group of distribution businesses. This is reflected in its sixth ranking over the 2006–23 period for opex MPFP but its ninth ranking over the 2012–23 period. Its slight worsening in performance over the 2012–23 period occurred at the same time as many other distribution businesses improved their performance, meaning its ranking fell relative to its peers. These results have not been adjusted to account for operating environment factors.

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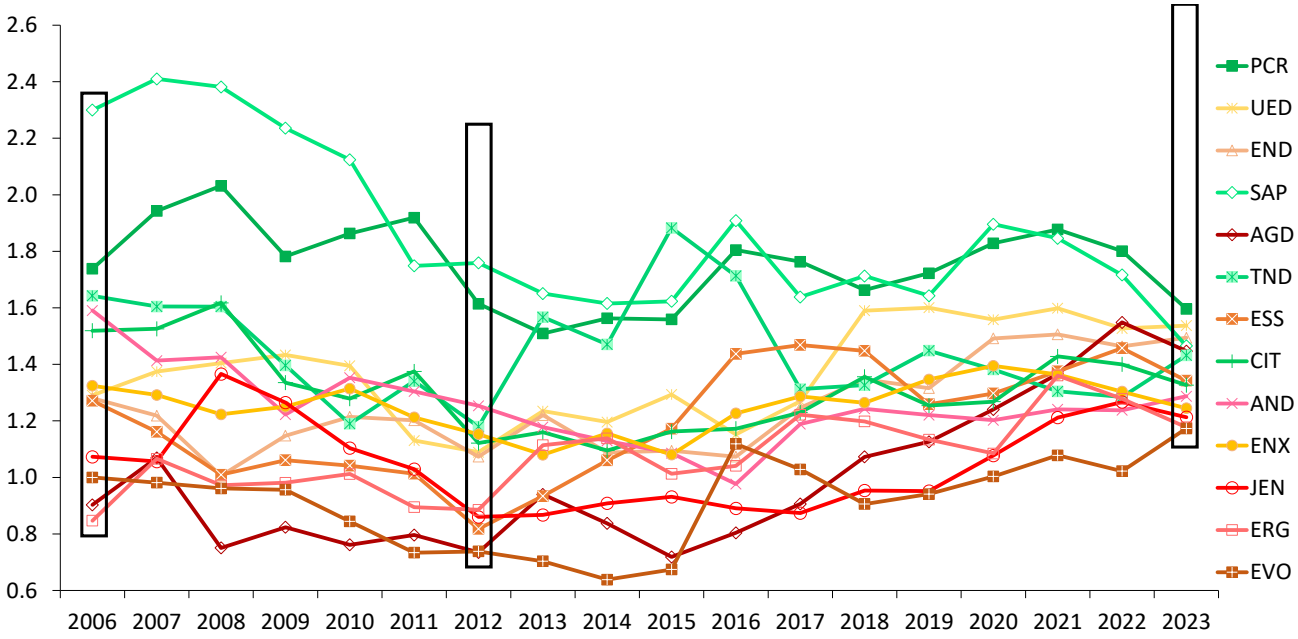
18 AER, *Final Decision, Ergon Energy 2025-30, Attachment 6 Operating expenditure*, April 2025, p. 17.

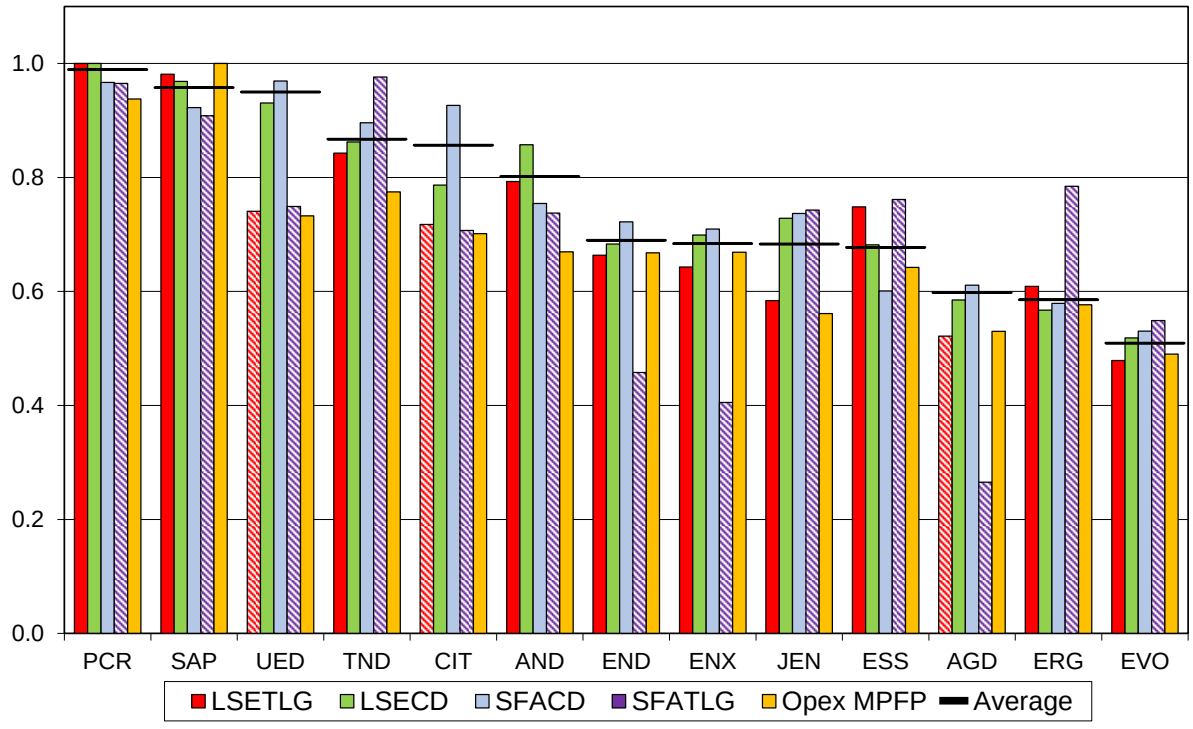
19 AER, *Annual Benchmarking Report, Electricity distribution network service providers*, November 2024, pp. 35–36.

Figure 3.3 Individual DNSP opex MPFP indexes, 2006–23



Source: Quantonomics; AER analysis.

Figure 3.4 Econometric opex efficiency scores and opex MPFP, 2006–23



Source: Quantonomics; AER analysis.
Note: Columns with a hatched pattern represent results that violate the key property that an increase in output is achieved with an increase in cost. These results also do not reflect the impact of a range of material OEFs (see section 7). Opex MPFP scores for each DNSP are displayed for comparison and are not included in the calculation of the average efficiency score, which also excludes any results affected by monotonicity violations.

We also observe that AusNet tends to perform similarly in per customer partial performance indicators (PPIs), compared with peers that have a similar customer density and performs similar or slightly worse compared to its peers for per circuit PPIs[20].

We consider that these results warrant the use of revealed costs in 2022–23 as the base year in our alternative estimate, as it provides an efficient base from which to form the 2026–31 regulatory control period opex allowance. We note that given that AusNet is a benchmark comparator business, our standard approach is not to further assess the efficiency of base year opex specifically with the use of our benchmarking roll-forward model. However, for completeness, we have used our roll-forward model to assess base year opex and found it to be efficient, though this finding could potentially change depending on the choice of base year.

3.3.2 Adjustments to base year opex

AusNet proposed adjustments to its base year opex of $3.6 million or $17.8 million over the regulatory control period.[21] These were for removing property management costs ($–2.5 million) and adding the reclassification of corporate overheads ($20.3 million).

We have considered these proposed adjustments and in our alternative estimate we have adjusted opex in the base year by:

- adding $4.7 million for a non-recurrent efficiency gain for forecast opex to satisfy the opex criteria and to share the significant insurance premium underspends with network users (EBSS). This increases our alternative estimate by $23.4 million over the 5 years of the 2026–31 regulatory control period. We explain this adjustment further in 3.3.4.12
- adding $19.5 million for the increase in opex between base year 2022–23 and the final year 2025–26 (final year increment). This increases our alternative estimate by $97.5 million over the 5 years of the 2026–31 regulatory control period. We explain this adjustment in 3.3.2.1
- subtracting $7.5 million for the estimated final year opex for the removal of opex categories forecast separately. This decreases our alternative estimate by $37.6 million over the 5 years.
- subtracting $0.5 million for property management costs. This decreases our alternative estimate by $2.5 million over the 5 years of the 2026–31 regulatory control period. We explain this adjustment in 3.3.2.2
- adding $4.0 million for the expensing of corporate overheads. This increases our alternative estimate by $20.0 million over the 5 years of the 2026–31 regulatory control period. We explain this adjustment in 3.3.2.3
- subtracting $1.0 million for Victorian Emergency Services Commission licence fees. This decreases our alternative estimate by $4.8 million over the 5 years of the 2026–31 regulatory control period. We explain this adjustment in 3.3.2.4

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20 AER, *Annual Benchmarking Report, Electricity distribution network service providers*, November 2024, pp. 38–47.

21 AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025.

3.3.2.1 Final year increment

Our standard practice to calculate final year opex is to add the estimated change in opex between the base year (2022–23) and the final year (2025–26) of the current regulatory control period to the base year opex amount.[22]

We have added $19.5 million for the final year increment in our alternative estimate, increasing our alternative estimate by $97.5 million over the 2026–31 regulatory control period. This is the same as AusNet's proposal.

Included in the $19.5 million, is the difference between the approved 2021–26 insurance premium step change amounts in the final year to the base year ($8.1 million). We consider, as discussed in Section 3.3.4.12, including this expenditure in our alternative estimate of total forecast opex does not satisfy the opex criteria. Our alternative estimate includes a negative insurance step change to remove this component of the final year increment from total forecast opex.

3.3.2.2 Removal of property management fees

AusNet reduced its base year opex by $0.5 million ($2.5 million) over the 2026–31 regulatory period to remove the property management fees, which were charged by Downer. AusNet's contract with Downer ended in August 2025, after which it will take greater control over all depot leases[23]. Because the Downer fee will cease, keeping it in the base year would embed a non-recurrent cost, charging customers for a service they will no longer receive.

3.3.2.3 Expensing of Corporate Overheads

AusNet proposed an increase in base opex of $4.1 million ($20.3 million over the 2026–31 regulatory control period), to reflect a change to its current capitalisation practices. From 1 July 2026 AusNet will fully expense corporate overheads[24]. In our alternative estimate we have adjusted base year opex by $4.0 million (or $20.0 million over the 2026–31 regulatory period) to reflect the change in AusNet's proposed capitalisation practices which we consider reasonable. The difference between our total adjustment and that of AusNet is driven by the difference in actual and forecast inflation applied. This also aligns the treatment of AusNet's electricity distribution network with its gas network, as approved by the AER in the 2023–28 AusNet Gas Access Arrangement Review.[25]

3.3.2.4 Victorian Essential Services Commission (ESC) licence fees

In our alternative estimate we have subtracted base opex of $1.0 million ($4.8 million over the 2026–31 regulatory period) to exclude the annual ESC licence fees that are transitioning to be recovered via a jurisdictional scheme.

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22 AER, Final decision – Expenditure forecast assessment guideline – Electricity distribution, October 2024, p. 23.

23 AusNet, AusNet – *Depot Strategy Plan,* January 2025 *p. 16.*

24 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 234

25 AER, *AER - AusNet 2023-28 - Draft Decision - Attachment 6 - Operating expenditure*, December 2022, p.15.

The ESC licence fee is used to fund ESC activities related to regulating the Victorian Distribution businesses.

Until 30 June 2025 these fees were recovered via the B-factor alongside Distribution use of system under/overs[26]. On 19 July 2024 the AER determined that the licence-fee scheme established under 21(a) of the *Electricity Industry Act 2000 (Vic)* meets the definition of a jurisdictional scheme in cl 6.18 7A of the National Electricity Rules. From July 1, 2025, all Victorian DNSPs, including AusNet must therefore recover these fees as jurisdictional amounts. That is, they will no longer be recovered from revenues relating to the opex building block under this revenue decision. AusNet's 2025-26 pricing proposal reflects this change.[27] Removing the base year expenditure ensures customers are not charged twice.

3.3.3 Rate of change

Having determined an efficient base year opex and estimated final year opex by adding a final year increment, we trend it forward to account for the forecast growth in prices, output and productivity over the regulatory control period. We refer to this as the rate of change.[28]

AusNet largely applied our standard approach to forecast the rate of change, including:

- **Price growth:** adopting our standard input price weightings of 59.2% labour and 40.8% non-labour. It forecast labour price growth using an average of forecasts of the growth in the WPI from BIS Oxford Economics (its consultant) and Deloitte (our consultant, as a placeholder).
- **Output growth:** applying the weights from our four econometric models, consistent with our standard approach. It forecast growth in its customer numbers and circuit length based on historic growth rates. AusNet used a weighted average of Probability of Exceedance (POE) scenarios to forecast ratcheted maximum demand growth, deviating from our standard approach.
- **Productivity growth:** using our 0.5% per year productivity growth forecast.

The rate of change proposed by AusNet contributed $60.6 million, or 3.6%, to AusNet's total opex forecast of $1,700.3 million. This equates to an average opex increase of 1.6% each year. We have included a rate of change that contributes $46.5 million, or 3.1% to our alternative estimate of total forecast opex of $1,504.2 million. This equates to average opex increase of 1.2% each year in our alternative estimate.

Table 3.2 Forecast annual rate of change in opex (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
AusNet's proposal					
Price growth	0.6	0.5	0.6	0.7	0.6

[26] AER, *AER FINAL DECISION AusNet Services, CitiPower, Jemena, Powercor, and United Energy Distribution Determination 2021 to 2026 Attachment 14 Control mechanisms,* April 2021, p. 16.

[27] AusNet, *AusNet 2025-26 - Statement of compliance,* April 2025, p 8.

[28] AER, *Final decision – Expenditure forecast assessment guideline – Electricity distribution*, *October* 2024, p. 23.

	2026–27	2027–28	2028–29	2029–30	2030–31
Output growth	0.9	1.1	1.8	1.8	1.8
Productivity growth	0.5	0.5	0.5	0.5	0.5
Rate of change	**0.9**	**1.1**	**1.9**	**2.0**	**1.9**
AER alternative estimate					
Price growth	0.5	0.6	0.7	0.7	0.7
Output growth	0.8	0.8	0.8	1.5	1.7
Productivity growth	0.5	0.5	0.5	0.5	0.5
Rate of change	**0.8**	**0.9**	**1.0**	**1.7**	**1.9**
Difference	**–0.1**	**–0.2**	**–0.9**	**–0.3**	**0.0**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small nonzero amounts and '–' represents zero.

3.3.3.1 Forecast price growth

AusNet proposed average annual price growth of 0.6%, which increased its total opex forecast by $24.8 million. We have used real average annual price growth of 0.6% in our alternative estimate of total opex.[29] This increases our total opex alternative estimate by $26.4 million.

Both we and AusNet's forecast price growth as a weighted average of forecast labour price growth and non-labour price growth (real price growth rate of zero), of 59.2% and 40.8% respectively.

Consequently, the key difference between our real price growth forecasts and AusNet's is that we have updated our labour price growth forecast to include the more recent forecasts from our consultant Deloitte Access Economics.

Table 3.3 compares our forecast labour price growth with AusNet' proposal.

Table 3.3 Forecast labour price growth (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
AusNet's proposal					
Deloitte Aus	0.7	0.7	0.8	1.1	0.8
BIS Oxford Economics	1.2	1.0	1.3	1.3	1.2
Average	**0.9**	**0.8**	**1.0**	**1.2**	**1.0**
AER's alternative estimate					

[29] Our alternative estimate real average price growth is 0.03% higher than AusNet's proposed.

	2026–27	2027–28	2028–29	2029–30	2030–31
Deloitte Access Economics	0.7	0.9	1.1	1.1	1.0
BIS Oxford Economics	1.2	1.0	1.3	1.3	1.2
Average	**0.9**	**0.9**	**1.2**	**1.2**	**1.1**
Overall difference	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; Deloitte Access Economics, *Labour price growth forecasts*, August 2024, p. 10; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We will receive updated WPI forecasts prior to our final decision. We will use these to update our labour price growth forecasts in the final decision.

3.3.3.2 Forecast output growth

AusNet proposed average annual output growth of 1.5%, which increased its proposed opex forecast for the 2026–31 regulatory control period by $57.4 million. We have forecast average annual output growth of 1.1%. This increases our alternative estimate of total opex by $41.8 million, which is $15.6 million lower than AusNet.

Forecast growth of the individual output measures

We are satisfied that AusNet's forecast of the growth in customer numbers and circuit length, as set out in Table 3.4, reflect a realistic expectation. They are largely consistent with forecast trends from historical growth rates consistent with our standard approach.

We engaged Baringa to review AusNet's maximum demand forecasts, with our full demand assessment considerations set out in Attachment 2 Section A.2.3.1. Overall, Baringa noted that AusNet's within-model approach was transparent, but post model adjustments appeared material and required further justification. Baringa also noted AusNet used outdated AEMO inputs.[30]

AusNet forecast RMD growth as a 30/70 % weighting of their POE 10% and 50% at the transmission connection point demand forecasts.[31] We are not satisfied that AusNet's approach reflects a realistic expectation. For our alternative estimate, shown below in Table 3.4, we have included a placeholder using our standard approach of RMD forecast growth rates based on 100% of AusNet's POE 50% forecasts at the transmission connection point. We also agree with Baringa concerns with how non-data centre block loads, double count loads captured in the trend and other components of the modelling. On this basis we have also removed these components from our alternative estimate RMD growth forecasts.

We expect AusNet's revised proposal to update its RMD growth forecasts for the latest AEMO inputs and address our recommendations outlined in Attachment 2 Section A.2.3.1.

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30 Baringa, *Distribution demand forecast assessment, Review of AusNet Services' 2026–31 regulatory proposal*, July 2025, p. 6.

31 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 266.

Table 3.4 Forecast growth in individual output measures, %

	2026–27	2027–28	2028–29	2029–30	2030–31
AusNet's proposal					
Customer numbers	1.8	1.7	1.7	1.7	1.7
Circuit length	0.6	0.7	0.7	0.7	0.6
Ratcheted maximum demand	–	0.6	2.3	2.4	2.3
AER's alternative estimate					
Customer numbers	1.8	1.7	1.7	1.7	1.7
Circuit length	0.6	0.7	0.7	0.7	0.6
Ratcheted maximum demand	–	–	–	1.7	2.3

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Output weights

We have used the output weights set out in Table 3.5 in our alternative estimate. We derived these from the results of the four econometric models in our *2024 Annual benchmarking report*.[32] AusNet, however, used the results from our *2023 Annual benchmarking report.* As can be seen in Table 3.5.

Table 3.5 Output weights, %

	Cobb Douglas SFA	Cobb Douglas LSE	Translog LSE	Translog SFA	Average
AusNet's proposal					
Customer numbers	38.9	57.7	42.2	43.2	45.5
Circuit length	12.7	17.7	19.1	9.9	14.9
Ratcheted maximum demand	48.3	24.7	38.7	46.9	39.6
AER alternative estimate					
Customer numbers	29.1	55.7	37.3	34.3	39.1
Circuit length	13.4	23.7	24.9	17.9	20.0

[32] Quantonomics, *Benchmarking results for the AER*, *Distribution*, November 2024, pp.144–147.

	Cobb Douglas SFA	Cobb Douglas LSE	Translog LSE	Translog SFA	Average
Ratcheted maximum demand	57.5	20.7	37.8	47.8	40.9

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model*, January 2025, p. 235; Quantonomics, *Benchmarking results for the AER*, *Distribution*, November 2024, pp. 144–147; AER analysis.
Note: Amounts of '0.0' and '–0.0' represent small non-zero values and '–' represents zero.

We will publish our *2025 Annual benchmarking report* in November 2025. In our final decision, we will update the output growth forecast in our alternative estimate to reflect the output weights derived using the results from this report. Full details of our approach to forecasting output growth are set out in our opex model, which is available on our website.

3.3.3.3 Forecast productivity growth

AusNet proposed average productivity growth of 0.5% per year, which decreased its total opex by $21.6 million. We have forecast the same average productivity growth rate, which reflects our standard approach.[33] This decreases our alternative opex estimate by $21.7 million over the 2026–31 regulatory control period.

In terms of stakeholder submissions, the AusNet Coordination Group submitted that AusNet should strive to be more ambitious in opex productivity.[34] We agree that electricity networks should endeavour to improve their productivity and have included forecast productivity growth of 0.5% per year in our alternative estimate of opex.

3.3.4 Step changes

In developing our alternative estimate for the draft decision, we include prudent and efficient step changes for cost drivers such as new regulatory obligations or efficient capex / opex trade-offs. As we explain in the Guideline, we will generally include a step change if the efficient base opex and the rate of change in opex of an efficient service provider does not already include the proposed cost for such items and they are required to meet the opex criteria.[35]

AusNet's proposal included eleven step changes totalling $131.7 million or 7.7% of its proposed total opex forecast.[36] These are shown in Table 3.6 along with our alternative estimate for the draft decision, which is to include step changes totalling $-40.2 million. This is $171.9 million lower than AusNet's proposal. We consider most of these step changes do

33 AER, *Forecasting productivity growth for electricity distributors*, *Final decision*, March 2019, p. 9.

34 AusNet Coordination Group, *Submission – Victorian electricity distribution proposal 2026–31*, May 2025, p. 24.

35 AER, Final decision – Expenditure forecast assessment guideline – Electricity distribution, October 2024, pp. 24–25.

36 AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model*, January 2025.

not meet the requirements of our step change criteria and therefore do not satisfy the opex criteria.[37] We discuss below for each step change.

Table 3.6 AusNet's proposed step changes and the AER's alternative estimate ($million, 2025–26)

Step change	AusNet's proposal	AERs alternative estimate	Difference
Flexible services and non-network solutions	8.5	–	–8.5
ESV more frequent pole inspections	8.0	–	–8.0
Fleet Electrification	-0.7	-0.7	–0.0
Digital (SaaS, Licences, etc.)	39.9	13.3	–26.7
EFD Rollout	7.8	–	–7.8
Digital Efficiencies	-3.9	–	3.9
Preparedness and Response	9.2	–	–9.2
Resilience (Hazard tree program)	15.0	–	–15.0
Customer relationship management and broad communications	15.7	–	–15.7
Emergency Backstop Mechanism	21.6	5.4	–16.3
Insurance	10.5	–58.1	–68.6
Total step changes	**131.7**	**–40.2**	**–171.9**

3.3.4.1 Flexible services and non-network solutions

We have not included the Flexible services and non-network solutions step change in our alternative estimate of total forecast opex for the draft decision. This reflects that we are not satisfied that this step change is prudent and efficient.

Table 3.7 AusNet's Flexible services and non-network solutions step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	0.5	1.1	1.7	2.3	2.9	8.5
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.5**	**–1.1**	**–1.7**	**–2.3**	**–2.9**	**–8.5**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

[37] AER, *Better Resets Handbook, July 2024, p. 26.*

AusNet proposed a step change of $8.5 million over the 2026–31 period for flexible services and non-network solutions, broadly consisting of 3 programs:[38]

1. Flexibility Services Payments ($6.0 million, $2023–24).
2. CER generation / load management ($1.5 million, $2023–24)
3. CER Open Data Exchange Integration ($0.5 million, $2023–24)

AusNet noted that these costs broadly relate to payments to non-network solution providers, to defer capex of $29.0 million, and for additional personnel to manage CER-related initiatives, including dynamic network operation and AEMO requirements. AusNet further clarified that currently no networks have these payments as an established practice, including that it does not yet have clear evidence on the efficient price for these non-network solutions.[39] It further stated that a portion of its proposed personnel costs relate to the anticipated AEMO Data Exchange, and specifically to manage the likely increased volume of shared data with AEMO and other participants.[40]

We assessed AusNet's proposed costs, including through the information provided in the respective business cases and models, the responses received to our information requests, and information obtained through an onsite workshop. We also engaged EMCa to provide technical advice on the prudency and efficiency of the proposed expenditure for both opex and capex for these categories.

We consider it prudent for AusNet to invest to develop its capabilities to meet the evolving requirements of the network, including through effective integration and utilisation of CER. However, we are not satisfied that the business has either provided sufficient information to justify the proposed investments, or that these programs overall represent prudent or efficient investments. In terms of the flexible services payments, we note these are further directly related to the proposed capex program, which we have not accepted (see Attachment 2). Additionally, we are not satisfied that AusNet provided sufficient information to demonstrate the relevant services will be available or procured, including that the proposed amount reflects the efficient amount required. EMCa also raised similar concerns regarding AusNet's proposed amount, including that it did not consider the methodology underpinning the relevant benefits or payments to be compelling. EMCa observed the method is not derived from previous trials, or other methods that may provide more robust estimates of associated costs. Notably, this included providing insufficient information to suggest the necessity of these payments, or that these are at the appropriate level.[41]

In terms of the AEMO Data Exchange costs, we note AusNet's reference to this being an anticipated future compliance requirement.[42] Further, AusNet used an indirect approach for other AEMO-driven changes to estimate the possible requirement and cost for this program.[43] Given this ambiguity, we are not satisfied this represent prudent or efficient

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38 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* pp. 248–250.

39 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* p. p. 250.

40 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* p. 249.

41 EMCa, *AusNet Services 2026–2031 Regulatory Proposal – Review of aspects of proposed network related expenditure and CER,* August 2025, p. 151.

42 AusNet, *response to AER information request IR#20, Q99(c)(i)*, 16 May 2025.

43 AusNet, *response to AER information request IR#20, Q100(a-b)*, 16 May 2025.

forecast opex. We note EMCa similarly noted concerns regarding approving costs on the basis that this may become a future compliance requirement, and thus considered this not to be within the NER criteria to allow.[44]

For the remaining costs, we consider it prudent for AusNet to improve its dynamic management capabilities. We consider this a necessary evolution of the network to integrate and operate in a growing CER environment. However, we consider these costs to inherently already be provided to AusNet through our base-step-trend forecasting approach. That is, our opex forecasting approach provides for an uplift through the rate of change factor. We note AusNet reference that it does not currently undertake these activities, and thus it considered these activities not to be within its base year.[45] However, forecast opex is established on a top-down basis, and thus any rate of change uplift is inherently also based on a top-down rather than a bottom-up category level activity. That is, this uplift is not principally for base activities, but for continued growth and adaptation of the business. We are therefore satisfied that AusNet is already provided with opex to uplift its relevant capabilities, and that including additional step change costs will risk double counting.

For our alternative estimate of total forecast opex for the draft decision, and for the reasons as set out above, we have therefore not included the Flexible services and non-network solutions step change.

3.3.4.2 ESV more frequent pole inspections

AusNet proposed a step change of $8.0 million over the 2026–31 regulatory control period for more frequent pole inspections[46], because of a direction issued by Energy Safety Victoria (ESV)[47]. Based on our review, we do not accept the proposed step change. We consider the step change is covered by the trend component in our opex forecasting approach.

Table 3.8 ESV more frequent pole inspections step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	1.6	1.6	1.6	1.6	1.6	8.0
AER alternative estimate	–	–	–	–	–	–
Difference	**–1.6**	**–1.6**	**–1.6**	**–1.6**	**–1.6**	**8.0**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

In its initial proposal, AusNet noted that ESV issued a direction to increase scheduled pole inspection frequency from every 6 years to every 5 years, to commence on 1 January 2024 in line with AusNet's revised Bushfire Mitigation Plan.[48] The direction from ESV ultimately

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44 EMCa, *AusNet Services 2026–2031 Regulatory Proposal – Review of aspects of proposed network related expenditure and CER,* August 2025, p. 158.

45 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 249.

46 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 244.

47 ESV, *Request to submit revised bushfire management plan*, June 2023, p. 2.

48 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 242.

reverses a previous decision in 2019, where the inspection frequency was changed from 5 to 6 years.

AusNet noted that the change has led to a material increase in asset inspection costs that is not included in their proposed 2022–23 base year and is also driven by a change in regulatory obligations. The costs relate to an addition of 6 new labour resources, along with additional vehicles and equipment.[49] The business stated a shorter inspection cycle would maintain network risk by allowing for early replacement or reinforcement of unserviceable poles.[50]

We have decided to not include the step change in our alternative estimate due to the low materiality of the costs proposed. We consider the costs to be covered by the trend factor in overall opex estimate.

Through AusNet's engagement with an Opex and Benchmarking Panel, it was raised that AusNet may have benefitted financially from a prior decrease in inspection frequency (from five to six years) that occurred in 2019, then the proposed step change for 2026–31 would prevent customers from sharing in those benefits through the EBSS.[51] In response, AusNet stated it did not financially benefit from the previous change as inspection costs increased in 2018-19.[52] However, from the available information provided, we have found inspection costs to have incurred lower opex costs in 2020–2024 period after inflation adjustments, supporting the panel's view of EBSS efficiencies[53] in the current regulatory period.

We have engaged with EMCa on the pole inspection step change, and they have concluded that the proposed amount is prudent and efficient. Although EMCa states that the proposed step change was not considered in the context of AusNet's overall opex step change proposal or the application of regulatory incentive mechanisms.[54]

While there may be a regulatory obligation imposed for this step change, the costs associated will need to represent a major upward step and is not capable to be managed under forecast opex through in-built provisions under output, price and productivity growth.[55] If AusNet considers that the allowance from rate of change is insufficient, it may be appropriate to propose a base year that is more reflective of the appropriate frequency of pole inspections. Alternatively, a non-recurrent efficiency gain can be applied when considering the non-recurrent nature of gains arising from the changing inspection frequencies.

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49 *AusNet, ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* pp. 242, 244.

50 *AusNet, ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 244.

51 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 244.

52 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 244.

53 AER, *Attachment 5 – Efficiency benefit sharing scheme – Draft decision – AusNet Services distribution determination 2026–31*, September 2025, p. 4.

54 EMCa, *AusNet Services 2026–31 Regulatory Proposal – Review of aspects of proposed Network related expenditures and CER*, August 2025, pp. 170.

55 AER, Better Resets Handbook, July 2024, p. 26.

It is worth noting that there are EBSS implications[56] and interrelationships with this step change, and AusNet is expected to encounter EBSS efficiencies if this step change was to be included. This is due to the base year that was used to forecast the overall opex in the current regulatory period. The base year does not account for cost savings that occurred when the inspection frequency was previously decreased in 2019. No adjustment (negative step change) was made to account for the lower costs from less inspection activities. Including an increased amount of opex for this step change would result in net gain for AusNet when considering interactions between opex and EBSS for the current and future regulatory periods. Using a different base year after the inspection frequency change occurred may be appropriate to capture the true effect on costs, especially when considering the EBSS and opex interactions.

Overall, we find it appropriate to not include an amount for this step change in our alternative estimate. The proposed costs is of a small enough magnitude to be accounted for in our trend component in our opex forecast. Additionally, providing a step change would not be consistent with clause 6.5.8(c)(3) of the NER, which requires the AER, when implementing the EBSS, to have regard to the desirability of both rewarding distributors for efficiency gains and penalising distributors for efficiency losses.

3.3.4.3 Fleet Electrification

AusNet proposed a step change of $–0.7 million over the 2026–31 regulatory control period for fleet electrification, reflecting lower running costs as light internal combustion engine vehicles are replaced. Our alternative estimate for the draft decision includes a forecast of –$0.7 million for the Fleet Electrification step change, which is the same as Ausnet's proposal.

Table 3.9 AusNet's Fleet Electrification step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	–0.0	–0.1	–0.1	–0.2	–0.2	–0.7
AER alternative estimate	–0.0	–0.1	–0.1	–0.2	–0.2	–0.7
Difference	**–0.0**	**–0.0**	**–0.0**	**–0.0**	**–0.0**	**–0.0**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We have included this step change in our alternative estimate as we consider this proposed opex / capex trade-off to be prudent as it is the result of AusNet's proposal to replace Internal combustion engine vehicles with EVs, when it is efficient to do so. Allowing an opex / capex trade-off step change for the transition of fleet to EVs is consistent with the Guideline[57] and recent revenue determinations, including for SAPN 2025–30.[58]

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56 AER, *Attachment 5 – Efficiency benefit sharing scheme – Draft decision – AusNet Services distribution determination 2026–31*, September 2025, p. 4.

57 AER, *Final decision – Expenditure forecast assessment guideline – Electricity distribution*, *October* 2024, p. 25.

58 AER, *Draft Decision SA Power Networks Electricity Distribution Determination 2025 to 2030*, September 2024 p. 54.

We expect AusNet's revised proposal to update these values, taking into consideration our fleet assessment set out in Attachment 2, Section A.7.[59]

3.3.4.4 Digital (SaaS, Licences)

AusNet proposed a step change of $39.9 million (2.3% of total forecast opex) over the 2026–31 regulatory control period for its Digital program.[60] This relates to investing in new ICT capabilities and greater use of cloud solutions to manage increasing data hosting requirements. Our alternative estimate for the draft decision includes a placeholder forecast of $13.3 million for the Digital step change. This is based on our view that AusNet has not included the required economic analysis. demonstrating the efficiency and prudency of the proposed total expenditure. We also consider that for some sub-programs of the Digital step change, the opex benefits exceed the costs and therefore no incremental expenditure is required.

Table 3.10 Ausnet's Digital step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Ausnet's proposal	3.6	7.4	8.7	10.0	10.2	39.9
AER alternative estimate	1.4	3.3	2.7	2.9	3.0	13.3
Difference	**–2.2**	**–4.1**	**–6.0**	**–7.2**	**–7.2**	**–26.7**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

AusNet's proposal stated the $39.9 million Digital step change was driven by new initiatives and new opex related to new capex, for the following programs:[61]

- to maintain new ADMS capabilities (Phases 3 & 4).
- other new licensing and subscription (L&S) costs.
- additional cloud migration costs.

We note the opex has an associated $386.7 million in ICT capex. (see Attachment 2 of our draft decision, section A.5.3). In Table 3.11 below, we have mapped the opex programs to the associated capex programs.

We engaged EMCa to assist in our assessment of the prudency and efficiency of the proposed Digital step change. EMCA noted their principal finding being the proposed Digital step change expenditure was significantly overstated and a reasonable estimate of additional opex being 50-60% less than what AusNet has proposed.[62]

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59 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 251.

60 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 244.

61 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, pp. 244-46.

62 EMCa, *AusNet Services 2026–2031 Regulatory Proposal – Review of proposed expenditure for ICT*, August 2025, p. xi.

EMCa was not satisfied that AusNet provided justification of the proposed expenditure being prudent and efficient. EMCa's findings stated this was due to overstatement of a justified level of scope, high-level costings that were biased towards overestimation, unconvincing evidence of ability to deliver a program that would represent a significant increase on current and recent investment levels and a lack of allocation of forecast project costs (where required) to AusNet.[63]

EMCa also considered that the majority of AusNet's proposed Digital step change was not required, with the main reason being that AusNet's forecast business opex savings will obviate the need for the additional expenditure.[64] Table 3.11 below lists which programs we consider are not justified based on the benefit realisations being greater than the proposed costs and therefore no additional expenditure is required.

Overall, based on our review, including EMCa's findings, we consider the proposed opex step change is not justified. On this basis we have included a lower alternative estimate as a placeholder, dependant on AusNet's revised proposal providing the required economic analysis justifying the prudency and efficiency of the proposed costs as outlined in Attachment 2 Section A.5.3.

Table 3.11 below, sets out our alternative estimate at the program level in comparison to AusNet's proposed costs.

Table 3.11 Digital step change program detail

Opex Program	Capex related program	Proposed Opex	AER alternative estimate	Difference	Benefits realisation greater than costs
ADMS Phases 3 & 4	ADMS	12.4	10.0	–2.4	–
	ADMS	1.3	–	–1.3	–
	Field enablement	9.7	–	–9.7	Yes
	Field enablement	0.1	–	–0.1	Yes
	Network model management	1.0	–	–1.0	Yes
	TAM - Apps	1.2	–	–1.2	–
Other	Field enablement	1.0	–	–1.0	Yes
	Network model management	0.4	–	–0.4	Yes

63 EMCa, *AusNet Services 2026–31 Regulatory Proposal – Review of proposed expenditure for ICT*, August 2025, p.20.

64 EMCa, *AusNet Services 2026–31 Regulatory Proposal – Review of proposed expenditure for ICT*, August 2025, p.20.

Opex Program	Capex related program	Proposed Opex	AER alternative estimate	Difference	Benefits realisation greater than costs
	Distribution System Operator	3.2	–	–3.2	–
	Metering systems	0.4	–	–0.4	–
	Asset management	3.4	–	–3.4	Yes
	Customer engagement	1.3	–	–1.3	–
Cloud migration	TAM - Apps	2.7	1.3	–	–
	Cyber security	1.8	1.8	–	–
Total		**39.9**	**13.3**	**–26.7**	–

We note in further information request responses, AusNet identified that it had incorrectly included $23.8 million of SaaS implementation and customisation costs for its customer engagement program in capex forecasts. AusNet also correctly identified that under current accounting guidelines these costs should be treated as opex. For our Draft Decision, due to the timing of receiving this information, these costs have not been assessed as part of the opex Digital step change. We expect AusNet's revised proposal to correctly include these costs in its opex forecast, aligning with current accounting standards.[65]

3.3.4.5 Early Fault Detection Rollout

AusNet proposed a step change of $7.8 million over the 2026–31 regulatory control period for implementation of its Early Fault Detection (EFD) system. The initiative is associated with a capex proposal of $12.7 million and is aimed at identifying potential asset failures, triggering field inspection and replacement. Based on our review, we do not accept the proposed step change and do not consider the costs to be prudent and efficient. It is not clear the benefits are sufficient to warrant additional costs to consumers.

Table 3.12 AusNet's EFD rollout step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	1.6	1.6	1.6	1.6	1.6	7.8
AER alternative estimate	–	–	–	–	–	–
Difference	**–1.6**	**–1.6**	**–1.6**	**–1.6**	**–1.6**	**–7.8**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

[65] AusNet, *Response to Information Request #015*, 15 April 2025.

EFD devices are attached to utility poles and identify potential asset failures, and can assist in preventing fires by allowing early replacement of faulty equipment. AusNet proposed $7.8 million in opex for the five-year licensing fee associated with the installation of the EFD devices. Additionally, there is a corresponding capex of $12.7 million proposed for the hardware supply of these devices.[66] AusNet noted that the step change relates to its obligations under *Electricity Safety Act 1998* to minimise hazards and risks and stated legislation requirements to 'innovate and be across new technology'.[67] A submission from the Coordination Group agrees that the device meets the legislation requirements for innovation.[68]

AusNet has flagged that their modelling of the step change has resulted in low benefits, this is due to:

- low customer density of single wire earth return network
- limitations on how safety benefits from EFD devices are quantified
- Probability of Failure (bushfire risk) is low due to strong condition of the network

While AusNet has not provided the relevant modelling documentation to the AER, the above factors present challenges in showing the benefits of EFD devices quantitatively. In contrast, AusNet has completed three field trials of the devices (one of which is part funded by the Victorian Government) and claims the technology can reduce bushfire risk in the network.

We have engaged EMCa to provide advice on the step change and they consider that the Early Fault Detection Project has not been sufficiently justified.[69] EMCa stated that the driver of the program is not clear, and AusNet has not established an obligation or a change in risk that would necessitate the installation of EFD devices. [70,]EMCa also notes that it is unclear how the unit costs for the devices have been determined and noted that $0.9 million ($2024) of the proposed cost is included and not explained. [71]

Our draft decision is to not include the step change as AusNet has not sufficiently justified the benefits of the project or signalled a new regulatory obligation. While we support ongoing improvement to community safety, do not consider it appropriate that the costs of such projects are borne by consumers without establishing either a net benefit or identifying a new regulatory obligation.

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66 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 253.

67 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 253.

68 AusNet Coordination Group, *Submission – Victorian electricity distribution proposal 2026–31*, May 2025, p. 52.

69 EMCa, *AusNet Services 2026–31 Regulatory Proposal – Review of Aspects of Proposed Network Related Expenditure and CER*, August 2025, p.174.

70 EMCa, *AusNet Services 2026–31 Regulatory Proposal* – Review of Aspects of Proposed Network Related Expenditure and CER, August 2025, p. 87.

71 EMCa, *AusNet Services 2026–31 Regulatory Proposal* – Review of Aspects of Proposed Network Related Expenditure and CER, August 2025, p. 89.

3.3.4.6 Digital Efficiencies

AusNet proposed a negative step change of –$3.9 million over the 2026–31 regulatory control period to reflect opex savings resulting from the Digital step change program.[72] As a result of our decision to include a lower alternative estimate (placeholder) for the Digital step change, we have included a placeholder of zero in our alternative estimate. We expect AusNet's revised proposal to update this step change, to align the opex savings with our lower alternative estimate (Digital step change).

Table 3.13 AusNet's Digital efficiencies step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	–0.8	–0.8	–0.8	–0.8	–0.8	–3.9
AER alternative estimate	–	–	–	–	–	–
Difference	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**3.9**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.3.4.7 Preparedness and Response

AusNet proposed a step change of $9.2 million over the 2026–31 regulatory control period to uplift operational capability in emergency response, this includes[73]:

- 3 additional emergency management specialists, who will be responsible for emergency management planning and compliance activities.
- Expanded delivery of its existing emergency management training to more staff (from 90 to 400 employees)
- Updating its existing backup communications system with satellite phone subscriptions (satellite phones, Starlink) to key sites

Table 3.14 AusNet's Preparedness and Response step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	1.8	1.9	1.8	1.8	1.8	9.2
AER alternative estimate	–	–	–	–	–	–
Difference	**–1.8**	**–1.9**	**–1.8**	**–1.8**	**–1.8**	**–9.2**

Our draft decision is to not include this step change in our alternative estimate, as it is a relatively minor step change that is covered by the trend component in our opex forecasting approach.

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72 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 248.

73 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 261.

In AusNet's initial proposal, AusNet submitted that this expansion of its existing emergency preparedness and response activities is required to meet the new regulatory obligations and major external factors criteria for a step change, submitting it has an obligation to address the recommendations from Network Outage Review and Nous Group independent Post Incident Review, two performance reviews that were commissioned after the impacts of the February 2024 storm.[74]

AusNet has provided a spreadsheet stating the specific recommendations from the two reviews that the step change addresses.[75] The step change aims to address some of the recommendations from the commissioned reviews, with a focus on process implementation, staff uplift and training. AusNet noted that they have started implementing the recommendations in the current period, and the proposed costs are incremental to their 2022-23 base year.[76]

There were no submissions directly providing feedback on Ausnet's 'Preparedness and response' step change. Several submissions commented generally on the challenges and importance of enhancing network resilience.[77] Stakeholders emphasised network resilience as crucial in the evolving energy landscape, citing grid electrification and climate change as the primary drivers. The increasing dependence on renewable energy creates the need for resilient and reliable networks, to withstand severe weather changes and hence prevent prolonged outages.

In considering network resilience expenditures, stakeholders advised the AER to closely examine the prudency and justification of these projects. Submissions encourage us to ensure a clear, transparent and consistent approach by DNSPs when proposing resilience expenditure, including specific implementation timelines and milestones.[78]

We consider these activities are likely prudent but consider that the relatively small step up in costs proposed can be managed by the business without the need for a step change. Given the relative immateriality of the step change (<1.0%), we consider that the opex associated with this expansion over the next period of existing functions is accounted under the base and trend components of our opex forecasting framework. Specifically, the rate of change (trend) component in our framework accounts for expenditure relating to improvements in a business' operations. Providing additional incremental opex for minor changes in specific costs risks double counting of costs within the opex forecasting framework and encourages numerous small step changes in opex proposals.

3.3.4.8 Resilience (Hazard tree program)

AusNet proposed a step change of $15.0 million over the 2026–31 regulatory control period to expand its existing hazard tree program, aimed at reducing outage risk caused by structurally damaged trees. [79]

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74 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 257.

75 AusNet, *ASD - Emergency preparedness and response step change*, January 2025

76 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 259-260.

77 CCP32, *Submission – AusNet electricity distribution proposal 2026 – 2031*, May 2025, p. 39.

78 Victorian Government, *Submission - Victorian electricity distribution proposals 2026–31*, June 2025, p. 2.

79 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 256.

Based on our review, we do not accept the proposed step change as there has not been sufficient information provided demonstrate prudency and efficiency.

Table 3.15 AusNet's hazard tree program step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	3.0	3.0	3.0	3.0	3.0	15.0
AER alternative estimate	–	–	–	–	–	–
Difference	**–3.0**	**–3.0**	**–3.0**	**–3.0**	**–3.0**	**–15.0**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero

AusNet submits that the step change would enable it to increase its hazard tree cuts per year. AusNet provided a business case in support of the step change, showing a benefit of $8.0 million a year, compared to the $3.0 million cost per year in the step change.[80]The benefits relate to the reducing outages caused by hazard trees, which have been quantified using Value of Customer Reliability.[81]

AusNet has justified the primary driver of the step change as a capex to opex trade-off. AusNet argues that an uplift in its hazard tree program would lessen the need for network hardening and emergency response opex, as the program would reduce the frequency of outages caused by hazard trees.[82] AusNet submits that the step change is consistent with the AER's step change framework as it avoids additional capex to manage extreme weather risk and is not funded through any component of the opex forecast.

AusNet states that the associated costs are consistent with the NEO as it provides a net benefit, catering to the long-term interests of consumers. It references the Nous Post Incident Review of the February 2024 storms, which discusses the vegetation-dense areas in AusNet's network which are prone to storm damage and the role of vegetation management in reducing outage risk.[83] AusNet submits that it has received customer feedback that supports an uplift in its resilience-related expenditures, where customers suggested it seek outcomes above minimum compliance standards.[84]

We have engaged EMCa to provide advice on this step change. EMCa noted that while the primary justification for the step change was a 'capex to opex trade off', AusNet has been unable to provide the required estimate of the avoided capex.[85]

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80 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 255.

81 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 255.

82 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 255.

83 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 255.

84 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 28.

85 EMCa, *AusNet Services 2026–31 Regulatory Proposal – Review on AusNet Network related expenditures and CER*, August 2025, p.172.

EMCa's assessment of the supporting business case identified a number of material shortcomings with the estimation of benefits including that[86]:

- AusNet has not presented the avoided costs of this program (i.e. avoided capex or reduced reactive vegetation management cost), both of which could significantly increase the stated benefits
- the benefits predominantly relate to reducing expected unserved energy on Major Event Days (MEDs), noting the storms in 2024 contribute significantly to this benefit stream and this may potentially overstate this benefit stream
- the probability of a hazard tree causing an outage are overstated leading to overstated benefits.

EMCa concluded that the proposed Hazard tree program has not been sufficiently justified as AusNet has not provided sufficient supporting evidence to demonstrate a net benefit from the proposed activities. EMCa's view is supported by a submission from the Coordination Group, who agreed that AusNet has not provided sufficient analysis to justify the proposed expenditure as an efficient capex to opex trade-off.[87]

We consider that the step change cannot be justified as a capex to opex trade off, as AusNet has not provided sufficient detail on the avoided capex. AusNet submits that a larger hazard tree program may reduce the need for investments in network hardening, but does not adequately present the quantitative impacts of this trade-off. It is unclear if there is a strong relationship between hazard tree reduction and network hardening. Additionally, the benefits presented in its cost-benefit analysis are not sufficiently robust and may not accurately depict a net-benefit to consumers.

While the actions in the proposed step change may be prudent, we consider there is insufficient information available at present to determine prudency and efficiency of the proposed expenditure. Our draft decision is to not accept the proposed step change. We welcome additional information from AusNet in its revised proposal. . The additional information should clearly demonstrate the net benefits for consumers if the step change was to be approved.

3.3.4.9 Customer relationship management and broad communications

AusNet proposed a step change of $15.7 million (0.9% of total forecast opex) over the 2026–31 regulatory control period for 14 new customer relationship managers dedicated to its commercial and industrial customers, and to implement a new customer communications program.[88] Our alternative estimate for the draft decision does not include the customer relationship management and broad communications step change. This is because while we recognise the proposed activities received some support during AusNet's customer

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86 EMCa, *AusNet Services 2026–31 Regulatory Proposal – Review on AusNet Network related expenditures and CER*, August 2025, p.171-172.

87 AusNet, *Coordination Group - Submission - Victorian electricity distribution proposals 2026–31*, May 2025, p. 53.

88 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025*,* p. 251.

engagement program, we consider the step change has not been justified against our step change criteria.

Table 3.16 AusNet's Customer relationship management and broad communications step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	3.3	3.1	3.1	3.1	3.1	15.7
AER alternative estimate	–	–	–	–	–	–
Difference	**–3.3**	**–3.1**	**–3.1**	**–3.1**	**–3.1**	**–15.7**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

AusNet's proposal stated the $15.7 million step change consisted of:[89]

- $11.2 million to employ 14 new customer relationship managers dedicated to service its commercial and industrial customers. These managers are proposed to address feedback from Ausnet's commercial and industrial customers' for more 'on the ground' support to better manage planned and unplanned outages, commercial community energy projects and connections.
- $4.5 million to implement a customer communications program. AusNet states the campaign was designed to address customer feedback that it should play a larger role in providing trusted information to help residential customers make better energy use decisions.

We received one submission on this step change from CCP32, who noted that AusNet's stakeholder Coordination Group was generally supportive of these types of activities. CCP32 emphasised that it was the AER's role to assess the prudency and efficiency of any step changes and emphasised that consumers look to us to check if step changes meet the NER requirements.[90]

We consider that there is evidence of customer support for Ausnet improving its communication and coordination with its commercial and industrial customers. However, the proposal appears to be a discretionary expansion of existing *business as usual* (BAU) activities, and AusNet has not provided a justification of how these types of activities meets our step change criteria. In particular, a step change must be for a material increase in expenditure required by a new regulatory obligation, a capex to opex trade off, or a major external factor outside the control of the network where it can be demonstrated that it is not capable of being managed under forecast opex through trend.

Further analysis of AusNet's historic customer service expenditures indicates that one source of its significant underspend over the last two periods has been reductions in its customer service-related expenditures. In response to further information requests, AusNet stated that

89 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, pp. 251-53.

90 CCP32, *Submission – AusNet electricity distribution proposal 2026 – 2031*, May 2025, p.30.

over the 2016–20 regulatory period, it had implemented a major cost reduction program in this area that allowed for more efficient call centre operations and outage management.[91] AusNet also noted savings from outsourcing IT services and business back-office functions leading to substantial reductions in its customer service-related labour costs.

Similar to the proposed expansion of customer relationship managers, we consider the implementation of a new customer communications program to be a discretionary expansion of existing BAU responsibilities. We also note AusNet's proposed broad customer communication program represents 0.3% of total forecast opex.

On this basis we have not included this step change in our alternative estimate of total opex. This is because we consider these activities are captured in a business's efficient base year opex that meets the NER opex objectives. We also consider the relatively immaterial forecast increase is captured in base year opex and trend components of total forecast opex.

3.3.4.10 Emergency Backstop Mechanism

AusNet included a step change of $21.6 million in its proposal for ongoing costs associated with the emergency backstop mechanism (EBM) introduced by the Victorian Government to maintain system security by enabling the remote curtailment of rooftop solar systems.[92]

Table 3.17 Emergency Backstop Mechanism step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	3.3	3.3	4.3	5.4	5.5	21.6
AER alternative estimate	–	–	1.1	2.1	2.2	5.4
Difference	**–3.3**	**–3.3**	**–3.3**	**–3.3**	**–3.3**	**–16.3**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We include a $5.4 million step change for costs associated with the EBM. We agree with AusNet that amounts approved in a cost pass through for the EBM should be included in its forecast opex for the 2026–31 period.[93] Our base-step-trend model has 2 mechanisms which enable the EBM costs to be incorporated into AusNet's 2026–31 forecast opex: the estimated change in opex between the base year and the final year (i.e. the final year increment), and a step change.

The final year increment includes adjustments such as cost pass throughs. AusNet had an approved cost pass through application for the EBM approved in 2024, and these costs are reflected in the final year increment.

As the adjusted final year opex includes recurrent opex approved in the cost pass through, the step change needs to reflect the additional costs of the EBM that were not included in

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91 AusNet, *Response to Information Request #016, 14 April 2025.*

92 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 240.

93 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 241; and AER, *Determination – AusNet Services VEBM cost pass through*, August 2024.

base opex. We have included a $5.4 million step change reflecting the allocation of Distributed Energy Resource Management Systems licence fees to EBM activities. These licence fees were assessed as part of the cost pass through, however amounts for the first five years were capitalised, due to the prepayment of these costs in 2023–24. The licence fees will become part of recurrent opex in mid-2028–29. If we did not adjust the step change, AusNet would be recouping the bulk of the EBM costs twice, rather than the additional costs arising in this period.

3.3.4.11 Insurance

AusNet proposed a step change of $10.5 million (0.6% of total forecast opex) over the 2026–31 regulatory control period for increases of Insurance premiums, based on their independent insurance brokers (Lockton's) forecasts.[94] Our alternative estimate for the draft decision does not include the Insurance step change. This is because we consider the increasing insurance costs will be captured through price growth component of trend.

Table 3.18 AusNet's Insurance step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	1.8	2.0	2.1	2.2	2.4	10.5
AER alternative estimate	–	–	–	–	–	–
Difference	**–1.8**	**–2.0**	**–2.1**	**–2.2**	**–2.4**	**–10.5**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We have assessed the insurance step change and are not satisfied that a step change is warranted. We consider the increasing insurance costs are not material (0.6% of total forecast opex) and will be captured through price growth. Our trend forecast includes an allowance for increases in non-labour price growth by CPI. We expect some non-labour components in opex will increase by more than CPI and some less than CPI. If insurance premiums rise by more than CPI, we expect this will to an extent be offset by other non-labour costs rising by less than CPI.

On this basis our alternative estimate for the draft decision does not include the Insurance step change.

3.3.4.12 Insurance negative step change

Our previous final decision for AusNet's 2021–26 opex distribution determination included a $45.1 million ($2020–21) step change for forecast increases in insurance premiums in our alternative estimate.[95] In that review, we considered that the forecast increases qualified as a step change under our framework as they were driven by a major external factor outside of the control of the business and were not captured in base opex or trend.

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94 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 261.

95 AER, *Final decision – AusNet Services distribution determination 2021-26 – Attachment 6 – Operating expenditure,* April 2021, p. 51.

Under our framework when we approve a step change, we assume the expenditure is required in perpetuity. Our standard approach to forecast total opex, applies a final year increment to roll over any additional expenditure required from the final year approved allowance to base year approved allowance. This results in AusNet's proposed final year increment including the difference between the approved insurance premiums allowance (insurance step change) in the final year (2025–26) and base year (2022–23), which equates to $8.1 million or $40.5 million over the 2026–31 regulatory control period.

AusNet's 2026–31 regulatory proposal states that they have underspent this current regulatory period insurance allowance due to changes in market conditions.[96] AusNet's response to our further information requests revealed these underspends as a significant material proportion (2.5%) of total actual/estimated opex for this regulatory period.[97] Forecast insurance premiums, submitted by AusNet in the proposed Insurance step change, also provide evidence that the incremental expenditure approved in the 2021–26 step change is not required in perpetuity. We note that we considered for the Insurance step change that the price growth component of trend will capture any increase to insurance premiums from the base year (2022–23).

Under the NER we must accept or not accept an NSP's proposed opex forecast.[98] This choice depends on whether we consider the proposed forecast reasonably reflects the opex criteria. The criteria provide that the forecast must reasonably reflect the efficient costs that a prudent operator would require to meet expenditure objectives, given a realistic forecast of demand and cost inputs. In making this decision we must have regard to the opex factors.

One of the opex factors we must have regard to is whether an opex forecast is consistent with any incentive schemes that apply to an NSP.[99] The NER requires that we must develop and publish an EBSS that provides a fair sharing of efficiency gains and losses between NSPs and network users.[100]

Our assessment considers that including the insurance premium component ($40.5 million) of the final year increment assumes insurance premiums will rise significantly higher than required. We now know these increases will not occur and results in our alternative estimate of total forecast opex not meeting the opex criteria. That is forecast opex will be materially higher than that required by a prudent operator.

We also consider, this does not provide a fair sharing of efficiency gains or losses under the EBSS and that the previously approved 2021–26 insurance step changes are not a recurrent step up in costs required in perpetuity (that is, we consider they are non-recurrent). Including this insurance component of the final year increment results in network users waiting 6 years before the previously forecast insurance premium increases are no longer reflected in allowed revenues.

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96 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* p. 262.

97 AusNet, *Response to Information Request #016, 14 April 2025.*

98 NER clauses 6.5.6.(c)(d)

99 NER clause 6.5.6(e)(8).

100 NER clause 6.5.8(a).

To remove the insurance premium component of the final year increment, our alternative estimate for the draft decision includes a combination of a negative insurance step change and a non-recurrent efficiency gain. This ensures our alternative estimate of total forecast opex meets the opex criteria and the EBSS that provides a fair sharing of efficiency gains and losses between NSPs and network users.

The negative step change, calculated as the difference between the final year premium allowance and actual premium, removes the expected over forecasting of insurance premiums in 2025–26, thus ensuring this over forecasting isn't continued into the 2026–31 period. It then sets the non-recurrent efficiency gain in the base year equal to the insurance underspend in the base year. Together, this results in:

- forecast opex equal to that required by a prudent operator.
- NSPs returning all the 2021–26 insurance premium underspends through EBSS decrements six years later (treating the underspends as non-recurrent efficiency gains).

Table 3.19 below sets our alternative estimate for the insurance negative step change. See section Adjustments to base year opex 3.3.2 for further information on the non-recurrent efficiency gain.

Table 3.19 Insurance negative step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	–	–	–	–	–	–
AER alternative estimate	–11.6	–11.6	–11.6	–11.6	–11.6	–58.1
Difference	**–11.6**	**–11.6**	**–11.6**	**–11.6**	**–11.6**	**–58.1**

Source: AER analysis; AER, *Final Decision - AusNet Services distribution determination - 2021-26 - Opex model,* April 2021.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.3.5 Category specific forecasts

AusNet's proposal included two category specific forecasts, which were not forecast using the base-step-trend approach.[101] These were for debt raising costs ($16.6 million) and the proposed Innovation fund ($15.9 million), comprising $8.2 million of capex and $7.7 million of opex.[102]

3.3.5.1 Innovation Fund

AusNet proposed a $15.9 million innovation fund, comprising $8.2 million capex and $7.7 million opex. Our draft decision has included $2.4 million in our alternative estimate, for funding 2 of 7 proposed innovation projects in the total opex forecasts. This is because, while our assessment recognises the importance of innovation investment in supporting the energy transition, we consider that AusNet needs to do further work on its innovation proposal. Our

101 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 232.

102 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 264.

full assessment of the innovation fund expenditures (capex and opex), and our draft decision, is set out in Attachment 2 of our draft decision, section A.9.

AusNet also proposed a 'use it or lose it arrangement', by where they would return any funds not spent during the 2026–31 period to customers via a revenue adjustment.[103] We consider the innovation fund does not satisfy the criteria for a revenue adjustment under the NER (clause 6.4.3.(b)(5)) because it is not listed as an allowable revenue increment application. Therefore, our decision does not include the 'use it or lose it arrangement', where any unspent funds are returned to customers.

Table 3.20 Innovation Fund ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	0.3	1.3	1.8	2.2	2.1	7.7
AER alternative estimate	–	0.2	0.5	0.7	1.1	2.4
Difference	**–0.3**	**–1.1**	**–1.3**	**–1.5**	**–1.0**	**–5.2**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.3.5.2 Guaranteed Service Levy (GSL) payments

We have included GSL payments of $43.5 million in our alternative estimate. This is $10.5 million less than the $54.0 million forecast proposed by AusNet.[104]

Table 3.21 GSL payments ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	11.1	10.8	10.7	10.7	10.7	54.0
AER alternative estimate	9.1	8.9	8.7	8.5	8.3	43.5
Difference	**–2.0**	**–1.9**	**–2.0**	**–2.2**	**–2.4**	**–10.5**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

AusNet forecasted GSL payments by using a 5.5-year averaging method and applied reductions to reflect benefits of investments in improved reliability.

We have forecasted our alternative estimate using a 3-year averaging approach, consistent with the methodology applied to CitiPower, Powercor and United Energy. This also avoids implications with using half year data in 2021. In this calculation, we have not included amounts relating to:

103 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal, January 2025,* p. 264.

104 AusNet, *ASD - AusNet - EDPR 2026 - 2031 Regulatory Proposal,* January 2025, p. 264.

- reductions relating to reliability improvements as the projects have not been approved
- pass through applications for major storm events
- missed appointments and delays in processing connections as AusNet indicated that these processes are within their control and will instead be covered by the business

We note the Essential Services Commission (ESC) of Victoria may undertake a review on the GSL scheme and its associated payment rates, which will affect our GSL forecasts. As there is no indication on the timing of this review, we have calculated GSL payments based on the current GSL scheme and have not taken into account potential changes arising from the ESC review. Provided the ESC's review is completed by early next year, we will update the GSL payment forecasts in our final decision to consider the impact of the GSL scheme changes.

3.3.5.3 Debt raising costs

We have included debt raising costs of $15.7 million in our alternative estimate. This is $1.0 million lower than the estimate proposed by AusNet.

Table 3.22 Debt raising costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	3.0	3.1	3.3	3.5	3.7	16.6
AER alternative estimate	3.1	3.1	3.1	3.2	3.2	15.7
Difference	**0.1**	**–0.0**	**–0.2**	**–0.4**	**–0.5**	**–1.0**

Source: AusNet, *ASD - AusNet EDPR 2026–31 - Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block. This is the basis for our alternative estimate Table 3.22. We used our standard approach to forecast debt raising costs, which is discussed further in Attachment 1 to the draft decision.

Shortened forms

Term	Definition
ADMS	Advanced Distribution Management System
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP32	Consumer Challenge Panel, sub-panel 32
CER	consumer energy resources
CPI	consumer price index
CTP	customer technology program
DNSP	distribution network service provider
distributor	distribution network service provider
EBM	emergency backstop mechanism
EBSS	efficiency benefit sharing scheme
EFD	early fault detection
ESC	Victorian Essential Services Commission
ESV	Energy Safety Victoria
Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
GSL	guaranteed service levels
ICT	Information and Communication Technology
MPFP	multilateral partial factor productivity
NEM	national electricity market
NEO	national electricity objective
NER or the rules	national electricity rules
NSP	network service provider
opex	operating expenditure
POE	probability of exceedance
PPI	partial performance indicator
PTRM	post-tax revenue model
RMD	ratcheted maximum demand
SaaS	software as a service

Term	Definition
TAM	Technology Asset Management
WPI	wage price index