Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Overview

September 2025

AUSTRALIAN ENERGY REGULATOR

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Amendment record

Version	Date	Pages
1	30 September 2025	50

Invitation for submissions

AusNet has the opportunity to submit a revised proposal in response to this draft decision by 1 December 2025.

Interested stakeholders are invited to make a submission on both our draft decision and AusNet's revised proposal (once submitted) by Monday, 19 January 2026.

Submissions should be sent to: Vic2026@aer.gov.au and addressed to Dr Kris Funston, Executive General Manager.

Alternatively, you can mail submissions to GPO Box 3131, Canberra ACT 2601.

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be published on our website.

Pre-determination conference

Your engagement is a valuable input to our determination. We encourage all interested stakeholders to join us at our Pre-determination conference on Tuesday, 14 October 2025.

Details of how to register for this forum are available on our website and through Eventbrite.

List of attachments

This document forms part of the AER's draft decision on AusNet's electricity distribution determination for the 2026-31 regulatory control period.

A full list of attachments is provided below.

Overview

1) Annual revenue requirement
2) Capital expenditure
3) Operating expenditure
4) Pass through events
5) Efficiency benefit sharing scheme
6) Capital expenditure sharing scheme
7) Service target performance incentive scheme
8) Demand management incentive scheme and Demand management innovation allowance mechanism
9) Customer service incentive scheme
10) Victorian F-factor incentive scheme
11) Classification of services
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14) Alternative control services
15) Metering Services
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Executive summary

The Australian Energy Regulator (AER) is responsible for the economic regulation of electricity distribution and transmission systems in all states and territories except Western Australia.

We exist to ensure energy consumers are better off, now and in the future. We focus on ensuring a secure, reliable, and affordable energy future for Australia as we transition to net zero emissions.

A regulated electricity distribution network service provider (DNSP) must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network.

On 31 January 2025, we received regulatory proposals from 5 Victorian DNSPs for the period 1 July 2026 to 30 June 2031 (2026-31 period).

This is our draft decision for AusNet Electricity Services Pty Ltd [ABN 91 064 651 118] (AusNet). It is predicated on a series of constituent decisions summarised in section 5 of this Overview.[1]

The regulatory framework guides our decisions in the long term interests of consumers

The National Electricity Law (NEL) and National Electricity Rules (NER) provide the regulatory framework under which we determine the revenue requirement for distribution and transmission businesses.

We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of electricity supply that will benefit consumers in the long term.

Our decision must also consider targets for reducing Australia's greenhouse gas emissions, as required under the National Electricity Objective (NEO).

When we undertake our assessments, we consider whether we are satisfied that the proposed expenditure by the DNSP reasonably reflects prudent and efficient costs and a realistic expectation of future network demand and cost inputs.

Consumer support is an important part of this assessment. However, even where it is possible to say that a proposal is reflective of consumer views and preferences, this does not displace the AER's role in carefully testing and assessing the prudency and efficiency of proposed expenditure. Submissions have emphasised the importance of this scrutiny in ensuring desired outcomes are delivered at the lowest sustainable cost.[2]

To do this we scrutinise the DNSP's proposed business cases and supporting information, consider advice from our expert consultants, and apply our various analytical tools, such as

1 NER, cl. 6.12.1

2 Hon Lily D'Ambrosio MP - *Submission - Victorian electricity distribution proposals 2026-31* - June 2025; Origin Energy - *Submission - Victorian electricity distribution proposals 2026-31* - May 2025.

the replacement capital expenditure (repex) model and economic benchmarking for operating expenditure.

In addition, we are informed by stakeholder submissions and consumer preferences and priorities elicited through the DNSP's consumer engagement processes, and from our own Consumer Challenge Panel.

We are focused on efficient investment to deliver a safe, reliable and resilient network that meets consumer needs

The central component of AusNet's proposal is the revenue that it recovers from consumers over the 2026-31 period. We have assessed this by considering the constituent components of AusNet's proposal, including capital expenditure (capex), operating expenditure (opex) and the tariff structure statement (TSS) to ensure it complies with the NER.

AusNet put forward its proposal at a time when network costs are rising across the National Electricity Market (NEM), driven by a range of factors that affect reliability, security, and safety. The network is getting older, input costs are rising, digitalisation is increasing the risk of cyber-attacks, and the system is adapting to climate change, more rooftop solar, batteries, electric vehicle charging and large, new loads such as data centres.

On top of that, broader economic pressures like higher interest rates and inflation are also pushing costs up compared with the last 5-year period.

In Victoria, the energy market is undergoing a complex transition. Emissions reduction targets and the transition to net zero, now reflected in the NEO, are driving changes in household and commercial energy use. An increasing number of consumers are responding to incentives to move away from gas appliances, and the electricity grid is now a two-way system as rooftop solar and batteries play a larger role in supply and demand.

These shifts are changing the way consumers are seeking to use electricity and their expectations of electricity distribution networks. In turn, they are impacting how AusNet and other electricity distribution networks operate and invest in their networks.

At the same time, recent severe weather events have put resilience in the spotlight. Many Victorian consumers experienced extended outages. Victorian government reviews into electricity distribution network resilience, outage planning and operational responses have made several recommendations. Regional reliability and differences in performance between and within networks are also front of mind for many – equally important both in terms of service levels and access to the opportunities the transition provides.

Safety and reliability are enshrined in the NEO and are key components of our decision making. We expect DNSPs to submit proposals that meet their obligations in these areas in a way that is prudent and efficient. Our draft decision underscores the need for AusNet to do further work to ensure capex and opex proposals meet these objectives.

Network utilisation is in the mid-to-high range in Victoria compared with elsewhere in the NEM. However, we want to see a commitment by networks towards network pricing structures aimed at reducing the amount of network investment required to provide sufficient network capacity and stability during peak demand and export periods.

We encourage network businesses to utilise the revenue determination process to propose tariff design, incentive structures and efficient and prudent expenditure that contributes to achieving the NEO.

A DNSP's revenue proposal must have robust demand forecasts and clear evidence for increased investment in network augmentation in the 2026-31 period. We expect to see business cases that are well supported by analysis.

As any new network infrastructure will be paid for by consumers, it is important that businesses effectively utilise their existing infrastructure for distribution services, looking for non-network solutions and avoiding any unnecessary future infrastructure investment.

This is the challenging environment in which AusNet has put forward its forecast plans and revenues for the upcoming regulatory control period. This draft decision sets out our assessment of AusNet's proposal and the further work we now encourage it to undertake in its revised proposal to achieve the best possible outcomes for consumers.

Our draft decision

Our draft decision allows AusNet to recover $4,428.3 million ($nominal, smoothed) in revenue from consumers in the upcoming 2026-31 period. This is $562.5 million (or 11.3%) less than the $4,990.7 million that AusNet proposed. It is $838.5 million (or 23.4%) higher than the revenue we approved for AusNet in the current, 2021-26 period.[3]

Market factors, specifically rising inflation and interest rates, are driving higher revenues. In this draft decision we estimate 57% of the increase in revenue from period to period can be attributed to these external factors.

Our draft decision differs from AusNet's proposal in our assessment of the prudent and efficient capex and opex it will require in 2026-31 in order to continue to operate its network, and meet expected demand for its services, in accordance with its regulatory obligations. Based on the information before us, we are not satisfied that the magnitude of increases in expenditure AusNet has proposed are in line with prudent and efficient decision making. Our draft decision underscores the need for further work by AusNet to ensure its expenditure proposals meet these objectives. Our draft decision on forecast expenditure therefore uses placeholders subject to further supporting information being provided.

In this draft decision we have not accepted AusNet's proposed net capex of $3,496.0 million ($2025-26) and have substituted it with an alternative estimate of $1,701.4 million (a 51.3% reduction). We have accepted prudent and efficient expenditure for a number of key projects in AusNet's proposal, including Zone Substation rebuilds. In other areas, however, AusNet's proposal did not include sufficient evidence to substantiate expenditure increases of the magnitude put forward in its capex proposal. These are AusNet's proposed replacement, augmentation, connections, information and communications technology (ICT), property and fleet, integration of Consumer Energy Resources (CER) and innovation allowance expenditures.

In several instances we found that projects and programs had high unit costs or cost estimates that were difficult for us to substantiate based on the information provided, contained overestimated risks or did not consider the full range of options analysis that we

[3] In $2025–26 terms this is $45.6 million (or 1.1%) higher than the revenue we approved for AusNet.

require in developing proposals of this nature, including detailed consideration of the optimal timing of investments. These concerns are evident to varying extents across all categories of its proposed capex, including in new programs put forward to address outcomes of the Victorian government's resilience and network outage reviews and in CER and innovation allowance expenditures. They also arise in more familiar categories such as proposed replacement, augmentation, connections, ICT, property and fleet. We require AusNet to undertake further analysis and provide additional supporting information address these concerns in its revised proposal.

Our draft decision does not accept AusNet's proposed opex of $1,700.3 million ($2025-26), for which we have substituted an alternative estimate of $1,504.2 million (an 11.5% reduction). This difference is primarily driven by our alternative estimate not including 8 of the 11 step increases in opex AusNet proposed, for which AusNet's proposal did not include sufficient information to justify its proposed investments. These include AusNet's proposed step change for customer relationship management and broad communications. While we recognise the activities contemplated by this step change received some support during AusNet's consumer engagement, we consider the relatively immaterial forecast increase is captured in base year opex and trend components of total forecast opex. Our alternative estimate of total opex also includes a negative insurance step change in place of AusNet's proposed step increase, to ensure total forecast opex is prudent and efficient and to treat the significant insurance premium underspends as non-recurrent efficiency gains.

In looking beyond expenditure based solutions for the 2026-31 period, we encourage AusNet to do more to integrate its tariff strategy into its proposal. That is, it should include in its broader proposal (for example its forecast demand and proposed expenditure), further consideration of small consumers responding to the incentives for behaviour change provided by its tariffs.

AusNet's proposed TSS makes some progress on sending cost reflective price signals through retailers to shift usage out of peak times and into low-cost periods of the day. This includes proposing a solar soak (very low priced) period in the middle of the day for residential consumers, to extend critical peak demand tariffs for its medium and large business consumers, and individually calculated tariffs with locational price signals for large consumers. However, AusNet assumed limited consumer response to its small customer tariffs in its demand forecasts (other than those implicit through AusNet's use of historical trends and the Australian Energy Market Operator's (AEMO) electric vehicle charging forecasts). We are therefore not convinced that AusNet has done all it can to utilise tariffs to encourage efficient use of the network.

It is imperative for AusNet to use all the levers available to it, particularly tariffs, to optimise network utilisation. We consider that AusNet should engage further with stakeholders, including with retailers, to encourage take up of cost reflective tariffs and improve understanding of how tariff reform can complement (or mitigate) its proposed expenditure. It should also continue tariff trials aimed at managing flexible load and improve its long-run marginal cost calculations.

AusNet also has a role to play in enabling and supporting the roll out of new technologies, including kerbside electric vehicle (EV) charging. While most EV charging occurs at home, kerbside AC chargers are seen by many stakeholders as a practical and cost-effective solution for high-density areas without off-street parking, offering convenience similar to home charging, and avoiding major grid upgrades. Third-party interest in using DNSP-owned infrastructure as a host for non-DNSP equipment is growing, and kerbside power poles

owned by DNSPs have been identified as a potential host location for commercially provided EV charging infrastructure that will allow off peak charging of vehicles near the home. Commercial proponents of kerbside EV charging infrastructure are seeking to rent the use of DNSPs' kerbside poles for this purpose. Our draft decision is to classify a new, negotiated distribution asset rental service to support negotiation of access to Victorian DNSPs' kerbside poles for that purpose on terms that are fair, reasonable and cost reflective.

In this Overview and the accompanying detailed attachments, we have set out the assessment approaches applied, and enquiries made as part of our review, which have enabled us to arrive at this draft decision. This draft decision is the mid-point in our assessment of AusNet's proposal. AusNet now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in this draft decision.

Contents

1 Our draft decision

Our draft decision would allow AusNet to recover total revenue of $4,428.3 million ($ nominal, smoothed) from consumers from 1 July 2026 to 30 June 2031. This is $838.5 million more than AusNet's allowed revenue in the 2021–26 period in nominal terms. In the sections below, we briefly outline what is driving this increase in AusNet's revenue.

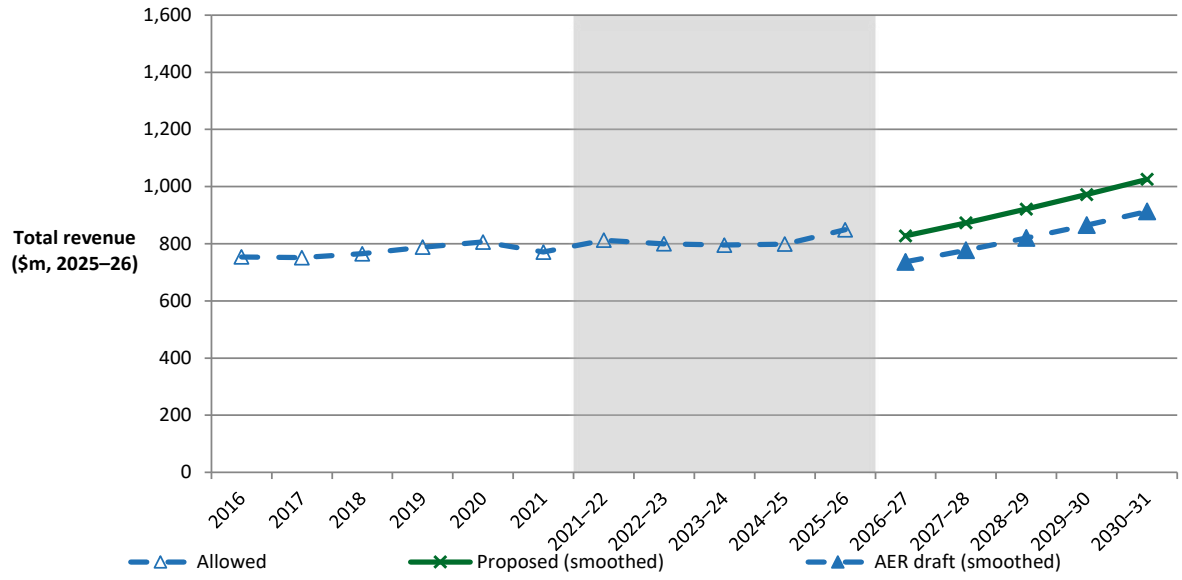
Our draft decision is $562.5 million lower than AusNet's proposal of $4,990.7 million in nominal terms. While slight increases in the rate of return and inflation have had some impact, the largest contributors to this difference are our draft decisions to reduce AusNet's proposed forecasts of capex and opex (by 51.3% and 11.5%, respectively). This reflects that we are not yet satisfied that all its projected increases are prudent, efficient and reflective of realistic expectations of demand. AusNet will have the opportunity in its revised proposal to address our concerns with its expenditure forecasts and, where it does so, final decision outcomes are likely to be different to those presented here. We discuss this further in section 2.

1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. To compare revenue from one period to the next on a like-for-like basis in this section, we use 'real' values based on a common year (2025–26) that have been adjusted for the impact of inflation.

In real terms, this draft decision would allow AusNet to recover $4,100.7 million ($2025–26, smoothed) from consumers over the 2026–31 period. This is 1.1% higher than our decision for the current (2021–26) period. Changes in AusNet's revenue over time are shown in Figure 1, along with our draft decision smoothed revenue for the 2026–31 period compared to what AusNet proposed.

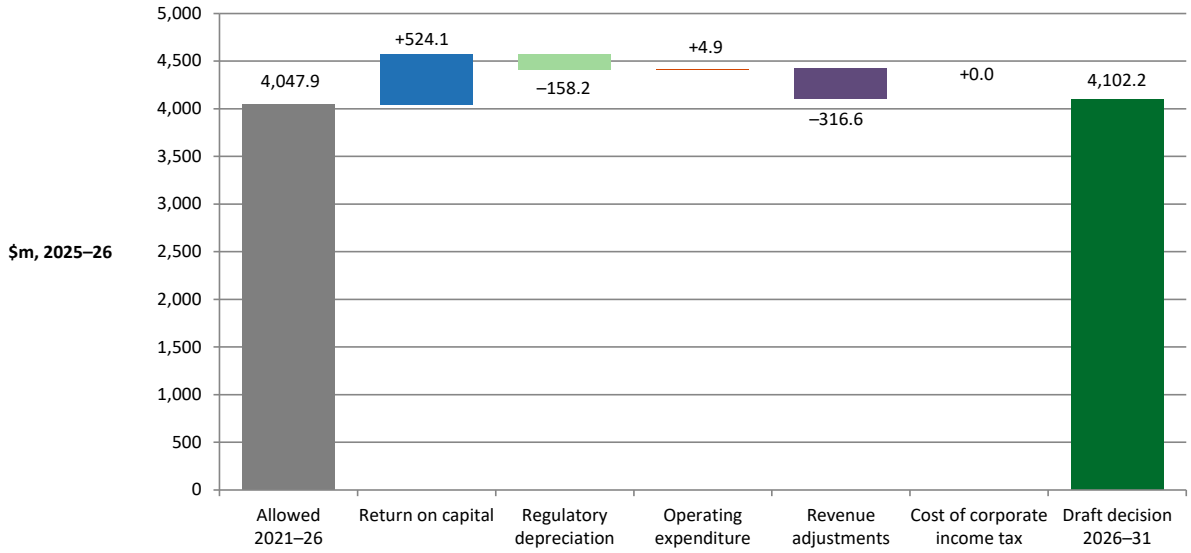
Figure 1 Changes in regulated revenue over time ($ million, 2025–26)



Source: AER analysis.
Note: For presentational purposes, the revenue for the half-year 2021 extension period has been doubled.

Figure 2 highlights the key drivers of the change in real terms between the revenue approved for AusNet for the current, 2021-26 period and in this draft decision for the 2026–31 period.

Figure 2 Changes in total revenue between 2021–26 period and 2026–31 period ($ million, 2025–26 unsmoothed)



Source: AER analysis
Note: This comparison is based on converting nominal forecast amounts to real dollar terms using lagged consumer price index (CPI). The 2021–26 building blocks and allowed revenue also excludes cost pass through amounts recovered through a C-factor mechanism as part of the annual pricing process.

Our draft decision would provide for a return on capital that is $524.1 million (38.7%) higher than the 2021–26 period. Higher actual inflation for the current 2021–26 period and higher interest rates for the 2026–31 period would increase AusNet's return on its regulatory asset base (RAB) which, at the start of the 2026–31 period will be higher than anticipated in our last determination. Our draft decision also projects further RAB growth over the 2026–31 period driven by forecast capex, which in turn is increasing the return on capital.

Under this draft decision the increase in the return on capital would, in real terms, be partially offset by a return of capital (regulatory depreciation) that is $158.2 million (16.3%) lower than the 2021–26 period, driven by a higher expected inflation and a reduction in accelerated depreciation compared to the 2021–26 period.[4] Revenue adjustments under incentive schemes including the Capital Expenditure Sharing Scheme (CESS), Efficiency Benefit Sharing Scheme (EBSS) and Demand Management Innovation Allowance Mechanism (DMIAM) are also $316.6 million lower than the 2021–26 period. These include a large negative carryover under the CESS to provide a fair sharing of capex spent in excess of our approved forecast for 2021-26 between AusNet and consumers.

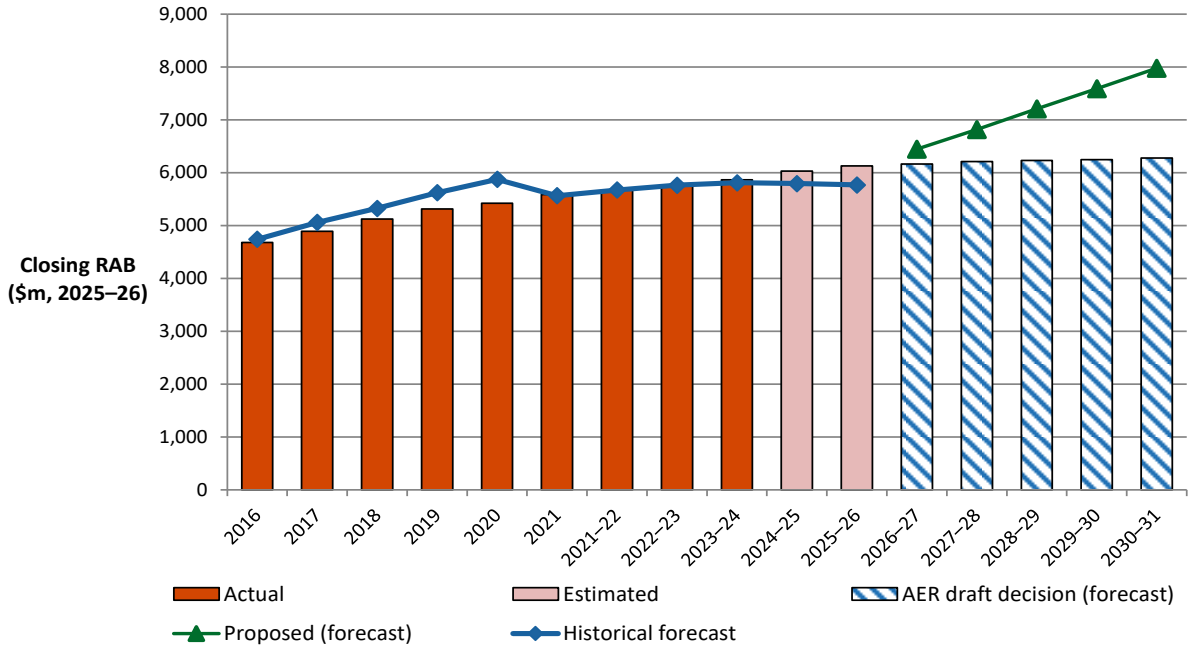
RAB values substantially affect a network businesses' revenue requirements, and the total costs consumers ultimately pay. We expect RABs to change over time, as capital investment

[4] Regulatory depreciation is straight-line depreciation less inflation indexation on the RAB. Therefore, a higher expected inflation reduces the regulatory depreciation building block, all else being equal.

will depend on the network's age and technology, load characteristics, the levels of new connections and reliability and safety requirements.

As shown in Figure 3, AusNet's RAB has increased in real terms over the 2021–26 period. In the later years of that period AusNet's capex has, and is expected to continue to, exceed the forecast approved in our last determination. This means that its opening RAB at the start of the 2026–31 period is higher than contemplated in our last decision. The projected RAB growth in the 2026–31 period is limited, reflecting our draft decision to reduce AusNet's proposed forecast capex.

Figure 3 AusNet's RAB value over time ($ million, 2025–26)

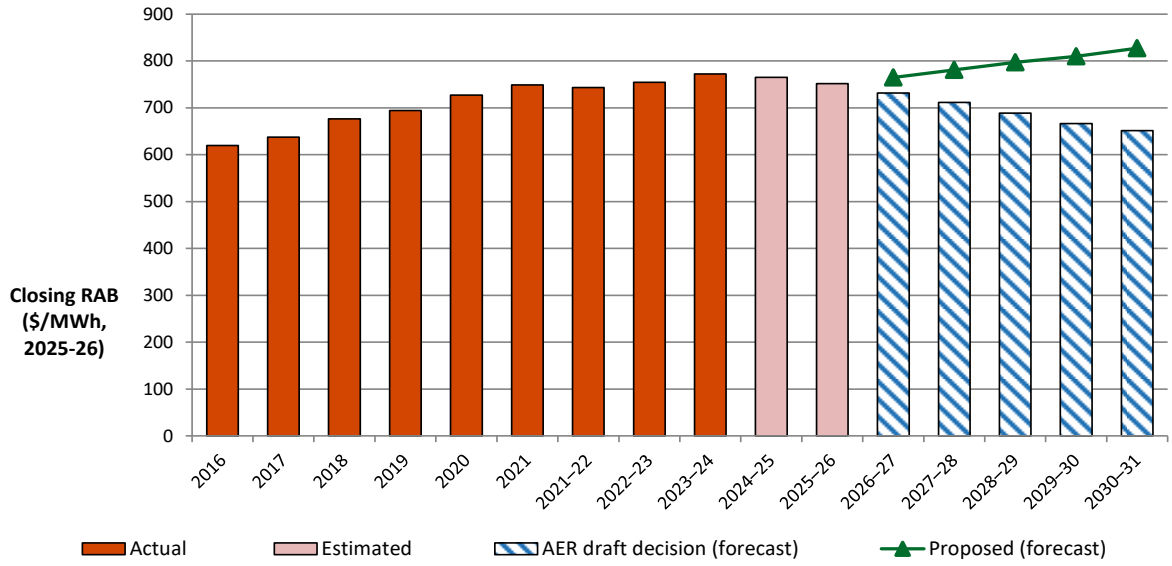


Source: AER analysis.

AusNet's RAB per MWh is forecast to decline over 2026–31 compared to the final year of the 2021–26 period, as can be seen in Figure 4. This is based on AusNet's forecast energy delivered (MWh) and could change depending on the actual volume of energy delivered.

AusNet's RAB per unit of energy consumption measure in real terms has historically been the highest of the Victorian DNSPs. This measure is expected to decline in 2024–25 based on consumption growth which will offset a moderate increase in the RAB in real terms. Over the 2026–31 period, AusNet's RAB per unit of energy consumption continues to show a forecast decline driven by an increased rate of forecast energy consumption. We consider efficient investment in, and efficient operation and use of, electricity services are important to minimise the required capital expenditure and the RAB.

Figure 4 AusNet's RAB per unit of energy consumption over time ($/MWh, 2025–26)



Source: AER analysis.

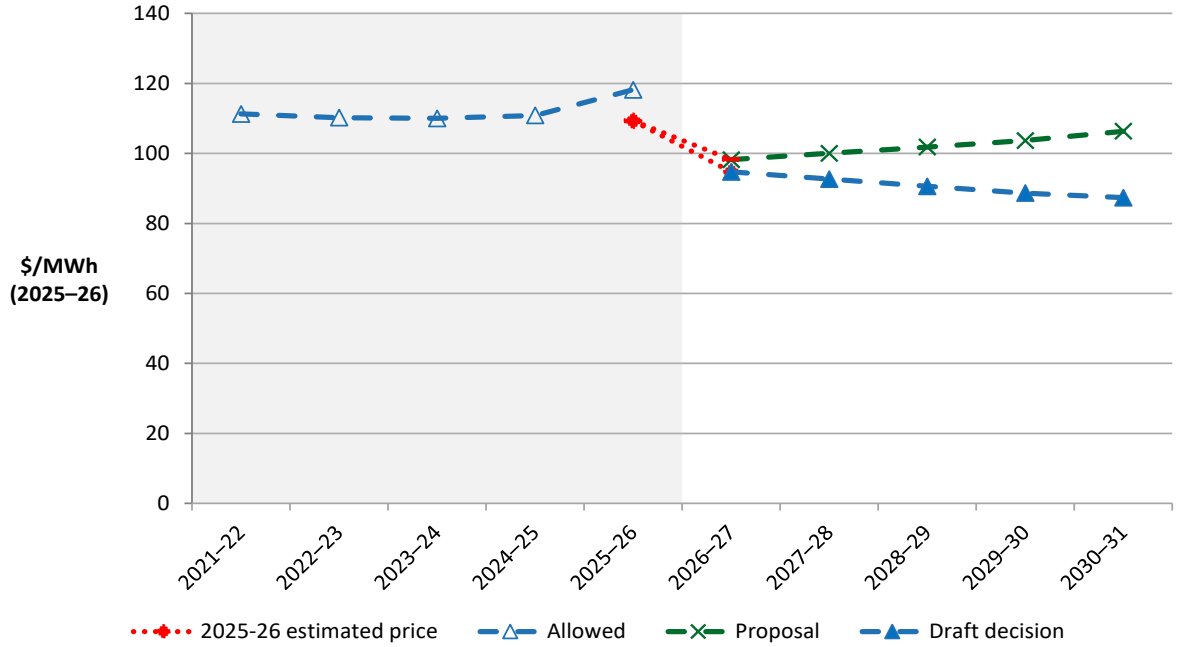
1.2 Expected impact of our draft decision on electricity bills

AusNet recovers its regulated revenue through distribution charges, set annually by reference to the TSS and pricing formulae approved by us as part of this decision.

For illustrative purposes only, we estimate the modelled impact of this draft decision would be a reduction to average distribution charges of around 20.1% in real terms by 2030–31 compared to 2025–26 levels or an average real reduction of 4.4% per annum.[5] Our estimate is subject to ongoing revenue adjustments and changes in consumer energy consumption during the 2026–31 period. Figure 5 compares this indicative draft decision price path for the 2026–31 period to the 2021–26 period, and what AusNet proposed.

[5] The average reduction to indicative distribution charges of 4.4% ($2025-26) per annum reflects two components: 1) The draft decision smoothed revenue average reduction of 1.1% per annum ($2025–26); and 2) AusNet's proposed forecast energy delivered in its distribution network area, which is forecast to increase on average by 3.4% per annum.

Figure 5 Change in indicative distribution charges for 2021–26 to 2026–31 ($2025–26, $/MWh)



Source: AER analysis.

Potential bill impact

AusNet's network charges make up around 35% of its residential consumers' electricity bills and 45% of its small business consumers' electricity bills.[6] Our draft decision also covers charges for revenue-capped metering services (that form part of alternative control services (ACS)) and these costs are included in this estimated bill impact analysis. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, transmission network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers.[7] These sit outside the decision we are making here but will also continue to change throughout the period.

At the time of making this draft decision, we have used placeholder values for certain components of revenue such as the rate of return, expected inflation and some expenditure forecasts. We will make further updates for these values as part of our final decision. It is for this reason that we expect the total expected revenues approved in our final decision and resulting bill impacts to be different to this draft decision.

In nominal terms, which include the effect of expected inflation, the impact of this draft decision would be a decrease to the distribution component of consumers' electricity bills.

6 Based on Victorian Default Offer, for a small business with a total annual use of 10,0000 kWh per year.

7 AEMC, *Data Portal,* *Trends in VIC supply chain components 2023/24*.

We estimate that the modelled impact of our draft decision on the average annual electricity bill for a retail consumer in AusNet's network area, as it is today, would be:[8]

- a nominal reduction of $97 (5.1%) by 2030–31, or an average of $19 per annum for a residential consumer. This reflects:
  - a $63 reduction for distribution standard control services (SCS) charges
  - a $34 reduction for metering.
- a nominal reduction of $231 (5.2%) by 2030–31, or an average of $46 per annum for a small business consumer. This reflects:
  - a $187 reduction for distribution SCS charges
  - a $43 reduction for metering.

For our draft decision, we have adopted AusNet's proposed forecasts of annual energy throughput to estimate the bill impacts, noting that if the actual energy delivered over the 2026–31 period is lower than forecast, it will result in higher bills, all else being equal, as AusNet is under a revenue cap. We discuss the sensitivity of employing alternative forecasts of energy throughput and its impact on indicative bills below.

Sensitivity of forecast energy delivered on bills

The impact of our draft decision and final decision on consumer bills is likely to change over the 2026–31 period. AusNet forecast the amount of annual energy delivered through its network to increase from 8,153 GWh in 2025–26 to 9,642 GWh in 2030–31, a significant increase of 1,489 GWh, or 18.3% over the period. This is the forecast that has informed the illustrative estimates of tariff and bill impacts in this draft decision. A variance in energy consumption compared to that forecast by AusNet would lead to bill impacts that are higher or lower than what we have estimated.

Stakeholders have highlighted the degree of uncertainty and risk around the demand forecasts proposed by AusNet, noting that if actual energy delivered over the 2026–31 period is less than forecast, distribution network tariffs and consumer bills would be higher, all else being equal.[9] This is because AusNet operates under a revenue cap and is therefore entitled to recover the revenue we determine, regardless of the actual energy delivered.

For example, if energy delivered were to increase over the period at 40% of the rate forecast by AusNet, the modelled impact on average annual bills would be: [10]

- a nominal reduction of $35 (1.8%) by 2030–31 for a residential consumer[11]

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8 Our estimated bill impact is based on the typical annual electricity usage of 4,000 kWh and 10,000 kWh for residential and small business customers in AusNet's network area, respectively. Essential Services Commission, *Victorian Default Offer 2025–26, Final Decision Paper*, 21 May 2025, p. 5.

9 Sensitivity of energy delivered on bills was also discussed in our issues paper. AER, *Issues paper AusNet Services electricity distribution determination 2026-31*, pp. 7-9, March 2025.

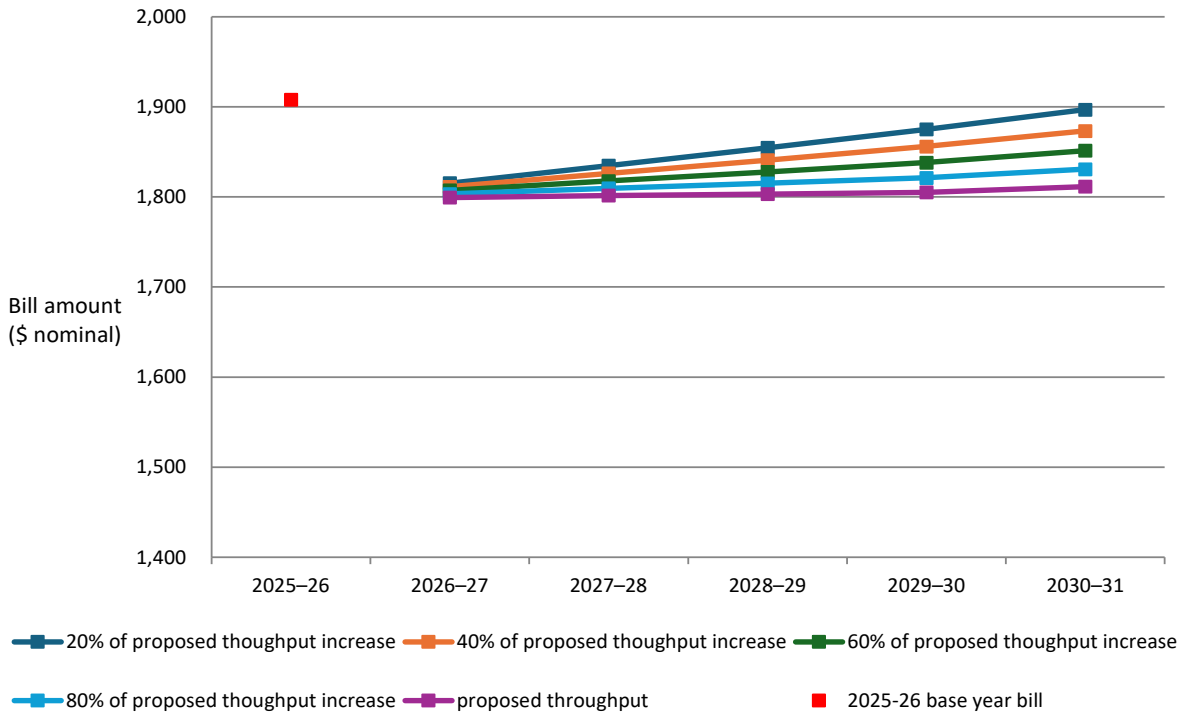
10 This would therefore reflect energy throughput of 8,749 GWh in 2030–31, or an increase in energy throughput over the period of 7.3% compared to the 18.3% increase proposed by AusNet.

11 This reflects a reduction of $1 for distribution SCS, and a reduction of $34 for metering.

- a nominal reduction of $46 (1.0%) by 2030–31 for a small business consumer.[12]

Figure 6 shows the average annual bill for a residential consumer for a range of alternative energy delivered forecasts.

Figure 6 Sensitivity of energy delivered on annual residential bills



Source: AER analysis.

1.3 Consumer engagement

High quality consumer engagement is critical to development of a proposal that supports delivery of services and outcomes that reflect consumers' needs and preferences. Experience shows that proposals that genuinely reflect consumer preferences, and which also meet our expectations for assessing capex, opex, depreciation and tariff structure statements, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.

The AER's Consumer Challenge Panel (CCP32) observed that AusNet's consumer engagement has met, and in many areas has exceeded the expectations we set out in our Better Resets Handbook.[13]

Where consumers have been engaged on the outcomes AusNet seeks to achieve, our role is to now carefully assess the prudency and efficiency of the expenditure AusNet has submitted is necessary to deliver them.

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12 This reflects a reduction of $2 for distribution SCS, and a reduction of $44 for metering.

13 CCP32 - *Submission - AusNet electricity distribution proposal 2026-31* - May 2025, p. 17.

The NER require us to consider the extent to which AusNet's proposed forecasts of opex and capex include expenditure to address the concerns of its end users, as identified by AusNet in the course of its engagement with end users or groups representing them.[14] This is one of several factors to which we must have regard in determining whether the total forecasts of opex and capex AusNet has proposed reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs.[15]

We have heard that energy affordability remains extremely important to AusNet's consumers and needs to be balanced with improvements to consumer service, and the increasing importance to consumers of reliability and the resilience of its network to extreme weather events. We have also heard that consumers support facilitation of a fair and equitable transition and are seeking greater agency in how to participate in the energy market and act in their own long term interests.

However, as AusNet's Coordination Group noted in its submission to us on AusNet's proposal, there are challenges for consumers participating in early engagement in providing unequivocal support for specific proposals. This is particularly the case for proposed levels of expenditure which in many cases are based on detailed technical analysis to which they have limited exposure, and for which amounts and inputs ultimately included in a proposal have changed, sometimes materially, since consumer deliberations on a specific area.[16]

AusNet has proposed significant uplifts in capex and opex relative to previous periods. Even where it is possible to say that its proposal is reflective of consumer views and preferences, this does not displace the AER's role in carefully testing and assessing the prudency and efficiency of proposed expenditure. Submissions have emphasised the importance of this scrutiny in ensuring desired outcomes are delivered at the lowest sustainable cost. [17]

Similarly, the effectiveness and outcomes of AusNet's engagement on its TSS, including its export tariff transition strategy[18], informed our assessment of proposed tariff structures. For example, we have had regard to information exchanged and feedback provided as part of consumer engagement when considering whether the structure of a tariff is reasonably capable of being understood by retail customers, *or* of being directly or indirectly incorporated by retailers or intermediaries into contract terms offered to those customers. [19]

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14 NER, cll. 6.5.6(e)(5A), 6.5.7(e)(5A).

15 NER, cll. 6.5.6(c), 6.5.7(c)(1).

16 AusNet Coordination Group - *Submission - Victorian electricity distribution proposals 2026-31* - May 2025, pp, 18-19.

17 Hon Lily D'Ambrosio MP - *Submission - Victorian electricity distribution proposals 2026-31* - June 2025; Origin Energy - *Submission - Victorian electricity distribution proposals 2026-31* - May 2025.

18 NER, cl. 6.8.2(c1)(2).

19 NER, cl. 6.18.5(i).

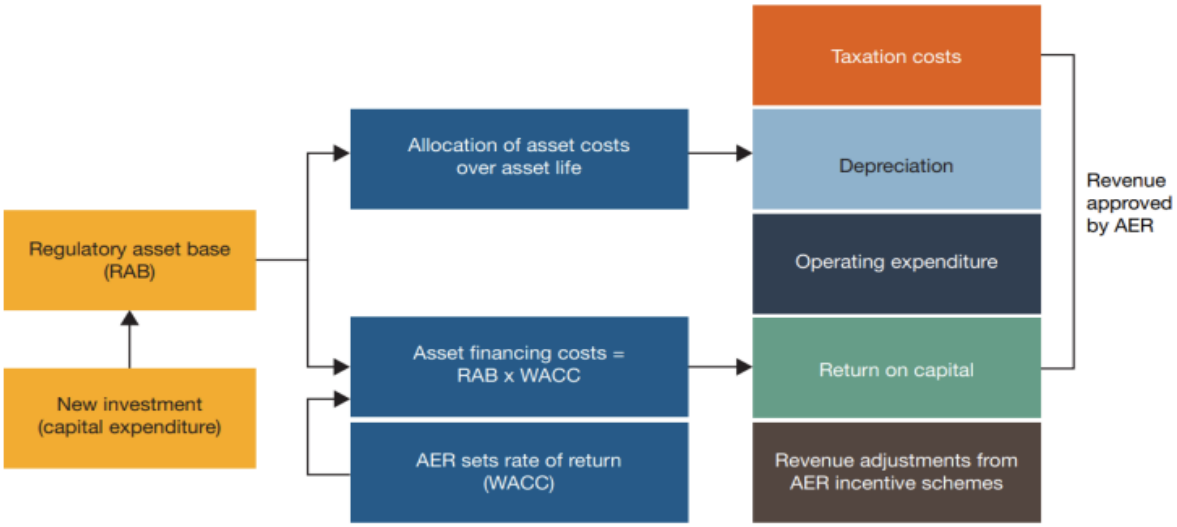
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a 5-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drives lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote achievement of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Under the NEL and NER, revenue is calculated using a 'building block' approach which looks at 5 cost components (see Figure 7):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment cost to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS and CESS
- estimated cost of corporate income tax.

Figure 7 The building block model to forecast network revenue



Source: AER.

Revenue smoothing

Our draft decision includes a determination of AusNet's annual revenue requirement (ARR) (unsmoothed revenue) and annual expected revenue (smoothed revenue) across the 2026–31 period. The smoothed revenues we set in this draft decision are the amounts that AusNet will target for its annual pricing purposes and recover from consumers for the provision of standard control services for each year of the 2026–31 period.[20]

The ARR is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

For this draft decision, we have approved lower revenues than AusNet's proposal. This is mainly driven by our reductions to AusNet's forecast capex and opex, and its opening RAB as at 1 July 2026. Further reductions to revenues are due to our updates for external economic factors including a higher expected inflation rate, which reduces the regulatory depreciation building block.

Our draft decision allows for higher revenues than those determined in the 2021–26 period for the reasons discussed in section 1.1 of this Overview. In nominal terms, AusNet's unsmoothed revenue for the first year of the 2026–31 period (2026–27) is 8.8% lower than the approved revenue for the last year of the 2021–26 period (2025–26). It then increases by an average of 4.9% per annum over the remaining 4 years of the period.

We are mindful of the impact this revenue increase over the final 4 years of the period could have on network charges for AusNet's consumers. Consequently, our smoothed revenue profile reduces these increases and passes on the optimal reduction in 2026–27.

Our draft decision smoothed revenue is for an initial revenue reduction of 8.1% ($ nominal) in 2026–27, followed by constant annual increases of 3.9% for the remaining 4 years (2027–28 to 2030–31). This smoothing profile results in a divergence between smoothed and unsmoothed revenue for 2030–31 of –3%, which is within our preferred range.

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set the revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. It substantially impacts AusNet's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

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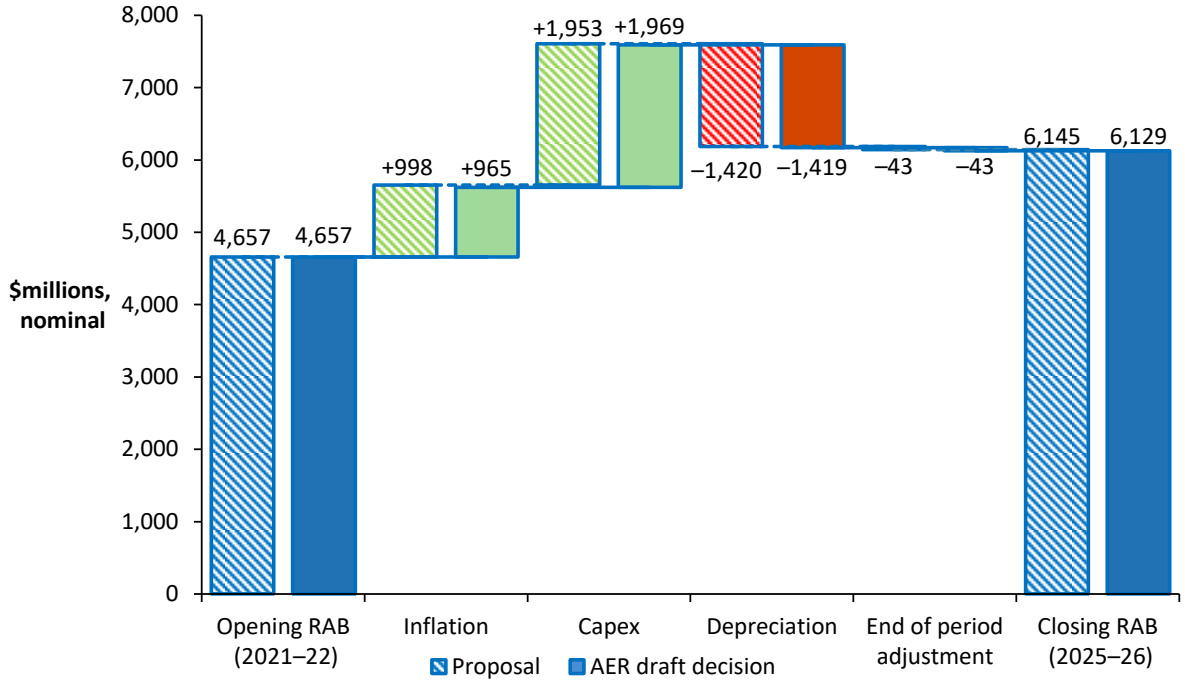
[20] Our draft decision expected revenues have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

For this draft decision, we have determined an opening RAB value of $6,129.0 million ($ nominal) as at 1 July 2026. This value is $16.0 million (0.3%) lower than AusNet's proposed opening RAB value of $6,144.9 million.[21] This reduction is mainly due to the update we made to the consumer price index (CPI) input for 2025–26 in the roll forward model (RFM) to reflect the actual outcome. Figure 8 shows the key drivers ($ nominal) of the change in AusNet's RAB over the 2021–26 period, compared to its proposal.

Figure 8 Key drivers of changes in the RAB over the 2021–26 period – proposal compared with AER's draft decision ($million, nominal)

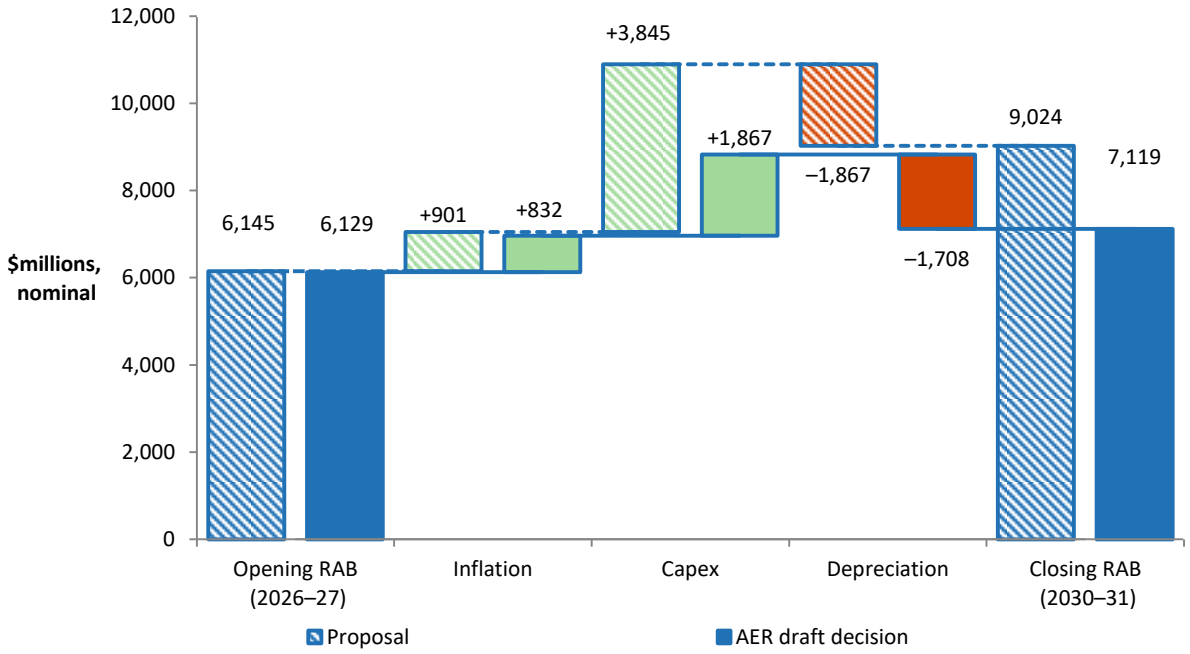


Source: AER analysis.
Note: Capex is net for forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for timing assumptions in the PTRM

Figure 9 likewise shows the key drivers ($ nominal) of the change in AusNet's forecast RAB over the 2026–31 period compared to its proposal. We have determined a projected closing RAB value of $7,119.5 million ($ nominal) as at 30 June 2031. This is $1,904.5 million lower than AusNet's proposed $9,024.0 million. This lower value is mainly due to our draft decision to reduce AusNet's forecast capex (Attachment 2). It also reflects our draft decisions on the opening RAB as at 1 July 2026, the expected inflation rate and forecast depreciation.

[21] AusNet, *EDPR 2026–31 – RFM,* January 2025.

Figure 9 Key drivers of changes in the RAB over the 2026–31 period – proposal compared with AER's draft decision ($million, nominal)



Source: AER analysis.

2.2 Rate of return and value of imputation credits

The AER's 2022 Rate of Return Instrument (RORI) sets out the approach we will use to estimate the return on debt, the return on equity and the overall rate of return.[22]

The return each business is to receive on its RAB, known as the 'return on capital', is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the RAB.

We estimate the rate of return by combining the returns of two sources of funds for investment: equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much, and consumers will pay inefficiently high prices.

We are required by the NEL and NER to apply the RORI to estimate an allowed rate of return. For this draft decision, we have applied the 2022 RORI.[23]

22 AER, *Rate of Return Instrument (Version 1.2)*, March 2024.

23 AER, *Rate of Return Instrument (Version 1.2)*, March 2024.

AusNet's proposal adopted the 2022 RORI.[24] The 6.06% (nominal vanilla) rate of return in this draft decision is slightly higher than the 6.04% placeholder in the proposal, reflecting the net effect of a lower return on debt and a higher risk-free rate.

Our calculated rate of return in Table 1 applies to the first regulatory year of the 2026–31 period. A different rate of return may apply for the remaining years of the period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 RORI, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Our draft decision accepts AusNet's proposed risk-free rate and debt averaging periods because they are consistent with the 2022 RORI.[25]

Table 1 Draft decision on AusNet's rate of return (nominal)

	AER's previous decision (2021-26)	AusNet's proposal (2026–31)	AER's draft decision (2026–31)	Allowed return over the regulatory control period
Nominal risk-free rate	1.46%	4.00%	4.25%[a]	
Market risk premium	6.10%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	5.12%	7.72%	7.97%	Constant (%)
Return on debt (nominal pre-tax)	4.64%[c]	4.91%	4.79%[b]	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	4.83%[c]	6.04%	6.06%	Updated annually for return on debt
Expected inflation	2.00%	2.50%	2.55%	Constant (%)

Source: AER analysis; AER, *Final decision – AusNet Services distribution determination 2021-26 – Attachment 3 – Rate of return*, April 2021, p. 6; AusNet, *ASD - Rate of return build up model – 310125,* 31 January 2025.

(a) Calculated using a placeholder averaging period of 20 business days ending 30 June 2025, which will be updated for the final decision.

(b) Calculated using a placeholder averaging period of 20 business days ending 30 June 2025, which will be updated for the final decision.

(c) Applied to the first year of the 2021–26 regulatory control period.

Debt and equity raising costs

In addition to compensating for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs which are

[24] AusNet, *Electricity Distribution Price Review 2026 - 31 Regulatory Proposal*, 31 January 2025, p. 290.

[25] AER, *Rate of return Instrument (version 1.2)*, March 2024, cll 7–8, 23–25.

likely to be incurred each time service providers refinance their debt. On the other hand, we include equity raising costs in the capex forecast because these costs are only incurred once and would be associated with funding the particular capital investments. Our approach to forecasting debt and equity raising costs is set out in more detail in our past determinations.[26] AusNet has proposed to use our approach to estimate debt and equity raising costs.[27]

Our draft decision is to apply a debt raising cost of 8.43 basis points per annum, which has been used to calculate the debt raising costs included in total forecast opex (see section 2.5).

We have updated our estimate for the 2026–31 period based on the benchmark approach using updated inputs. This results in zero equity raising costs.

Imputation credits

Our draft decision applies a value of imputation credits (gamma) of 0.57, as set out in the 2022 RORI.[28] AusNet's proposal also adopted this value.[29]

Expected inflation

As set out in Table 2, our estimate of expected inflation is 2.55%. It is an estimate of the average annual rate of inflation expected over a 5-year period based on the outcome of our 2020 inflation review.[30] AusNet's proposal also adopted our approach.[31]

Table 2 Draft decision on AusNet's forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	2.60%	2.58%	2.55%	2.53%	2.50%	2.55%

Source: AER Analysis; RBA, *Statement on Monetary Policy*, August 2025, Table 3.1: Detailed Forecast Table. See https://www.rba.gov.au/publications/smp/2025/aug/outlook.html#table-3-1.

Our draft decision uses the Reserve Bank of Australia's (RBA) August 2025 Statement on Monetary Policy (SMP) which contains a consumer price index (CPI) forecast for the year-ending June 2027. This means the first year of the 2026–31 period is based on RBA forecasts and, thereafter, a linear glide-path from year two to the mid-point of the RBA's inflation target band of 2.5% in year 5.

Figure 10 isolates the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowance. Other elements held constant, higher inflation increases the return on capital but decreases regulatory depreciation.

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26 AER, *AER - Draft Decision Attachment 3 - Rate of return - Ergon Energy - 2025-30 Distribution revenue proposal*, 23 September 2024, pp. 4-6.

27 AusNet, *Electricity Distribution Price Review 2026 - 31 Regulatory Proposal*, 31 January 2025, p. 293.

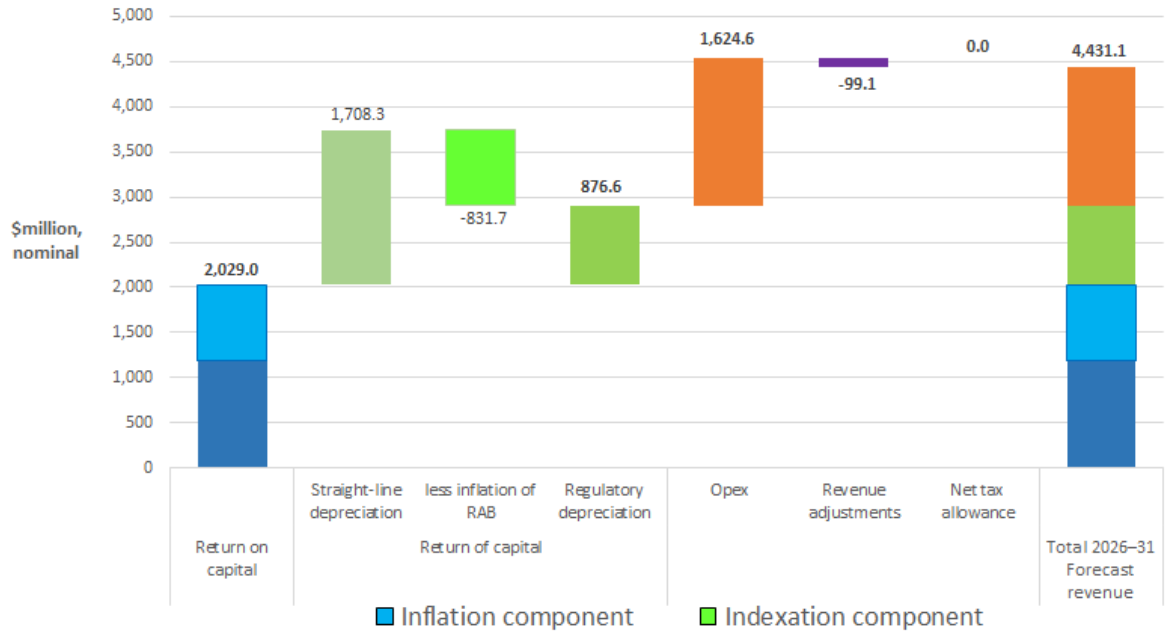
28 AER, *Rate of return Instrument (version 1.2)*, March 2024, cl. 27.

29 AusNet, *Electricity Distribution Price Review 2026 - 31 Regulatory Proposal*, 31 January 2025, p. 293.

30 AER, *Final position, Regulatory treatment of inflation*, December 2020.

31 AusNet, *Electricity Distribution Price Review 2026 - 31 Regulatory Proposal,* 31 January 2025, p. 294.

Figure 10 Inflation components in draft decision revenue building blocks ($million, nominal)



Source: AER analysis

2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our draft decision determines a regulatory depreciation amount of $876.6 million ($ nominal) for AusNet for the 2026–31 period. This is a reduction of $89.2 million (9.2%) from AusNet's proposal of $965.8 million.

This reduction is primarily due to our draft decision to reduce AusNet's proposed forecast capex, which has reduced straight-line depreciation in the 2026–31 period. Our draft decision to apply a lower opening RAB as at 1 July 2026, and a higher expected inflation rate for the 2026–31 period, has further reduced the regulatory depreciation building block.[32]

2.4 Capital expenditure

Capital expenditure (the capital costs and expenditure incurred to provide network services) mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Capex is added to AusNet's RAB, which is used to determine the return on capital and return of capital (regulatory depreciation) building block allowances. All

[32] Since RAB indexation is deducted from straight-line depreciation, a higher value of expected inflation also results in a lower regulatory depreciation.

else being equal, higher forecast capex will lead to higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our draft decision is to not accept AusNet's proposed total forecast capex of $3,496.0 million ($2025–26) because we are not satisfied it reasonably reflects the capex criteria. Our alternative forecast is $1,701.4 million, which is 51.3% below AusNet's forecast. Table 3 outlines our alternative estimate of forecast capex and compares this to AusNet's proposed forecast by capex category.

Table 3 AER draft decision by capex category ($2025–26, million)

Category	AusNet's proposal	AER draft decision	Difference over capex category ($/%)	
Replacement	1,316.9	709.9	-607.0	-46.1%
Augmentation	911.2	228.8	-682.4	-74.9%
Connections	576.5	522.8	-53.7	-9.3%
ICT	386.7	252.6	-134.1	-34.7%
Property	173.7	120.5	-53.2	-30.6%
Fleet	144.2	88.0	-56.2	-39.0%
CER integration	89.5	33.6	-56.0	-62.5%
Non-network capex - other	4.6	4.6	-	-
Capitalised overheads	209.1	110.6	-98.5	-47.1%
Total capex	**3,812.4**	**2,071.3**	**-1,741.1**	**-45.7%**
less capital contributions	277.3	272.2	-5.1	-1.8%
less Disposals	39.2	39.2	-	-
Modelling adjustments		-58.5	-58.5	
Net capex	**3,496.0**	**1,701.4**	**-1,794.6**	**-51.3%**

Source: AusNet's capex model and AER analysis.

Note: Numbers may not sum due to rounding. Modelling adjustments relate to updates to the consumer price index (CPI) and real cost escalation assumptions.

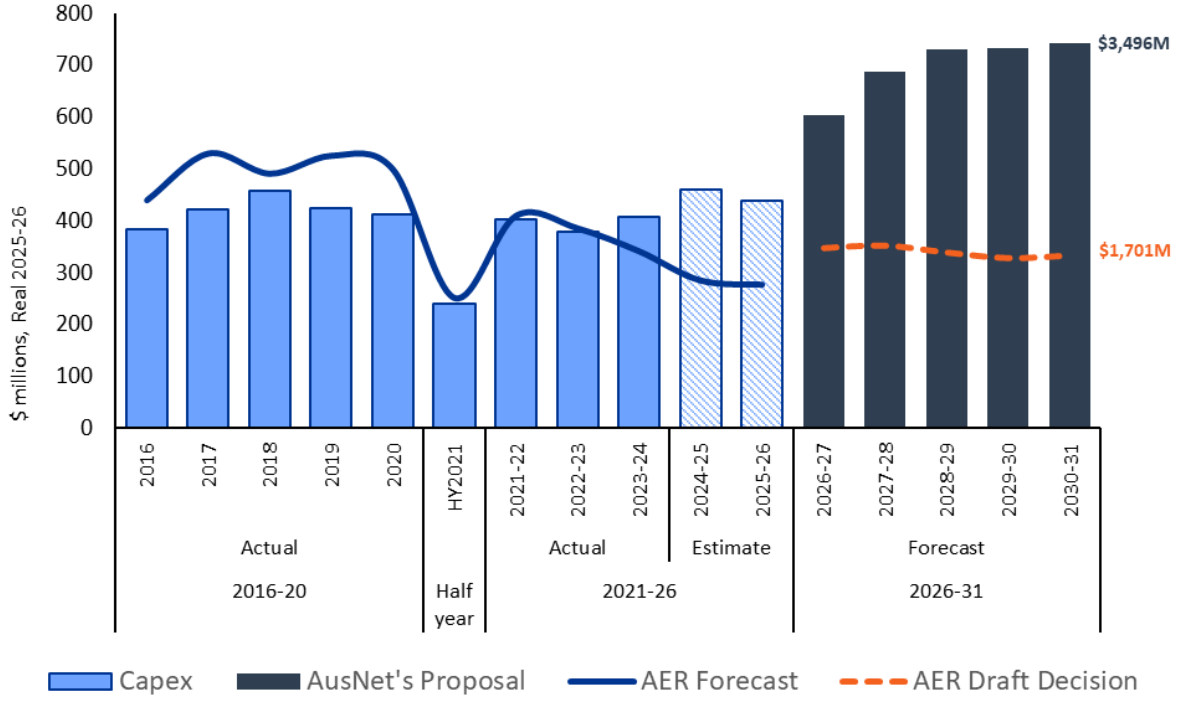
Figure 8 outlines AusNet's historical capex trend, its proposed forecast for the 2025–30 regulatory control period, and our draft decision.

AusNet expects to overspend its capex in the current 2021–26 period by $326.9 million ($2025–26) or 19% compared to our forecast.[33] As shown in Figure 11, a majority of this expected overspend is to occur in the last 2 years of the current period. This may trigger an ex-post review in the 2031–36 regulatory determination. However, AusNet incurred total

[33] AusNet, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal – 31 Jan 2025*, p. 95.

capex below its regulatory forecast for the current ex-post review period (2020 to 2023–24 regulatory years) and on this basis, the overspending requirement for an efficiency review of past capex is not satisfied. We note that some of this step up is because of increased labour and material costs, deferral of programs (including zone substation rebuilds, replacements and compliance related works) and unanticipated demand growth, connections and reliability related investments.

Figure 11 AusNet's historical and forecast capex ($2025–26, million)



Source: AER RIN Database, AER Analysis.
Note: Nominal figures converted to real dollars 2025–2026.

AusNet's proposed forecast investment requirement in the 2026-31 period is a further 71% higher than expected investment in the current period. AusNet submitted that the uplift reflects a range of factors which are driving the need for greater investment. These include the need to replace aging and deteriorated assets, manage higher unit costs driven by market pressures, enable electrification and unlock renewable energy, uplift network resilience and regional reliability, upgrade and refurbish its ageing depots and deliver an improved consumer experience.[34] AusNet proposed material increases in all capex categories other than capitalised overheads and other non-network.

We have reviewed AusNet's total capex forecast from a top-down and bottom-up perspective. Our top-down testing of AusNet's forecast capex informed the scope of our bottom-up review. We observe the following about AusNet's proposed forecast capex at the top-down level:

- its proposed total capex forecast is materially (71%) above current period actual/estimates

[34] AusNet, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal – 31 Jan 2025*, p. 19.

- it proposed a step up in the forecast for almost all capex categories, with a material step up in the largest components of capex
- the repex modelling results indicate that AusNet has higher unit rates and shorter replacement lives compared to the NEM median
- there is a decreasing trend in AusNet's whole of network System Average Interruption Frequency Index from 2015 to 2024, suggesting that reliability of its network is generally improving overtime, but we acknowledge there is poorer performance in some regional areas.

Given these top-down findings, we have undertaken a bottom-up review on most capex categories.

We have not accepted AusNet's forecast in full, because we found that it did not provide sufficient quantitative evidence to support its material 71% step up in expenditure.

AusNet is anticipating a large overspend during the 2021–26 period, followed by a large increase in forecast capex for the 2026–31 period, without strong supporting evidence demonstrating the need for a large step up in network investment. In these circumstances consumer engagement alone is not enough to support such a proposal.

Based on the information provided, we have identified a significant number of key components of AusNet's forecast that it has not demonstrated are prudently required to maintain the safety, reliability or security of the network and contribute to achieving emissions reduction targets or reflect the efficient costs of doing so. These are AusNet's proposed replacement, augmentation, connections, ICT, property and fleet, CER and innovation allowance expenditures.

In several instances we found that proposed projects and programs had high unit costs or cost estimates that were difficult for us to substantiate based on the information provided, contained overestimated risks or did not consider the full range of options analysis that we require in developing proposals of this nature, including detailed consideration of the optimal timing of investments. We require AusNet to undertake further analysis and provide additional supporting information to address these concerns in its revised proposal.

AusNet's replacement and augmentation expenditure made up the bulk of its proposal, at around 60% or over $2.2 billion, and included substantial demand driven network growth ($400.4 million) and resilience investments ($260.9 million) as well as programs to address regional reliability ($137.4 million).

Replacement expenditure (repex) is required to maintain the safety, security and reliability of the network. We observed that AusNet's overall reliability performance has been improving and were provided with insufficient supporting evidence to suggest AusNet needs to increase its repex by around 70% compared to its expenditure in the 2021–26 period. Due to insufficient historical data and lack of supporting material in AusNet's proposal, we have been unable to accept certain projects at this time. This includes the removal of $104 million in general contingency risk allowances included across various capex estimates and unit rates.

Augmentation expenditure (augex) supports the network to address system constraints driven by changes in demand and network utilisation. We have not accepted AusNet's demand forecast. We consider that a number of its proposed demand driven projects are not required or can be prudently deferred. However, we require AusNet to update its demand forecast for the latest available information and address our concerns regarding its forecasting methodology, variables and inputs in its revised proposal. In that context we recognise that the level of demand driven augmentation expenditure is likely to change as we progress to our final decision in April 2026.

We acknowledge the continual need for networks to manage the risks of extreme weather events and the projected increase in climate related risk. We also recognise the community concern around the network's ability to withstand extreme weather and to restore power (when interrupted) as soon as practicable and in a safe and secure manner. This has been well established through AusNet's engagement in preparation of the proposal. We have taken this into consideration in assessing AusNet's proposed resilience program. However, overall, we found that AusNet had not justified the majority of its resilience program as prudent and efficient. We have included $42.3 million in resilience expenditure for AusNet in our draft decision. Our alternative estimate does allow AusNet to undertake network hardening and stand-alone power systems and includes community resilience for mobile generation units and emergency response. In coming to our draft decision, we are cognisant of the prolonged outages AusNet's consumers have experienced over the recent period and AusNet's drive to better understand the climate risks it faces and minimise these risks.

We recognise the poor performance of the worse served feeders on AusNet's network and the strong support from AusNet's consumers to address poor performance. However, the evidence provided to us has not demonstrated that AusNet's proposed expenditure on the regional reliability programs is prudent or efficient. We have not included these programs of works in our draft decision. We require AusNet to undertake further root cause analysis to reassess the options of how best to address the underlying cause of the poor performance and include more targeted investment its revised proposal.

Our draft decision on AusNet's forecast capex for the 2026-31 period is set out in Attachment 2.

2.5 Operating expenditure

Operating expenditure (opex) is the forecast of operating, maintenance and other non-capital costs incurred in the provision of standard control services. Forecast opex is one of the building blocks we use to determine AusNet's total regulated revenue requirement.

Our draft decision is to not accept AusNet's total opex forecast of $1,700.3 million,[35] including debt raising costs, for the 2026–31 regulatory control period.[36] This is because our alternative estimate of $1,504.2 million is materially different ($196.1 million, or 11.5% lower)

[35] All dollars are in this document are in $2025-26 terms unless otherwise stated.

[36] AusNet, *ASD - AusNet EDPR 2026-31 - Opex Model,* January 2025. As noted above, this is for main SCS, with metering SCS discussed separately in Attachment 20 of our draft decision.

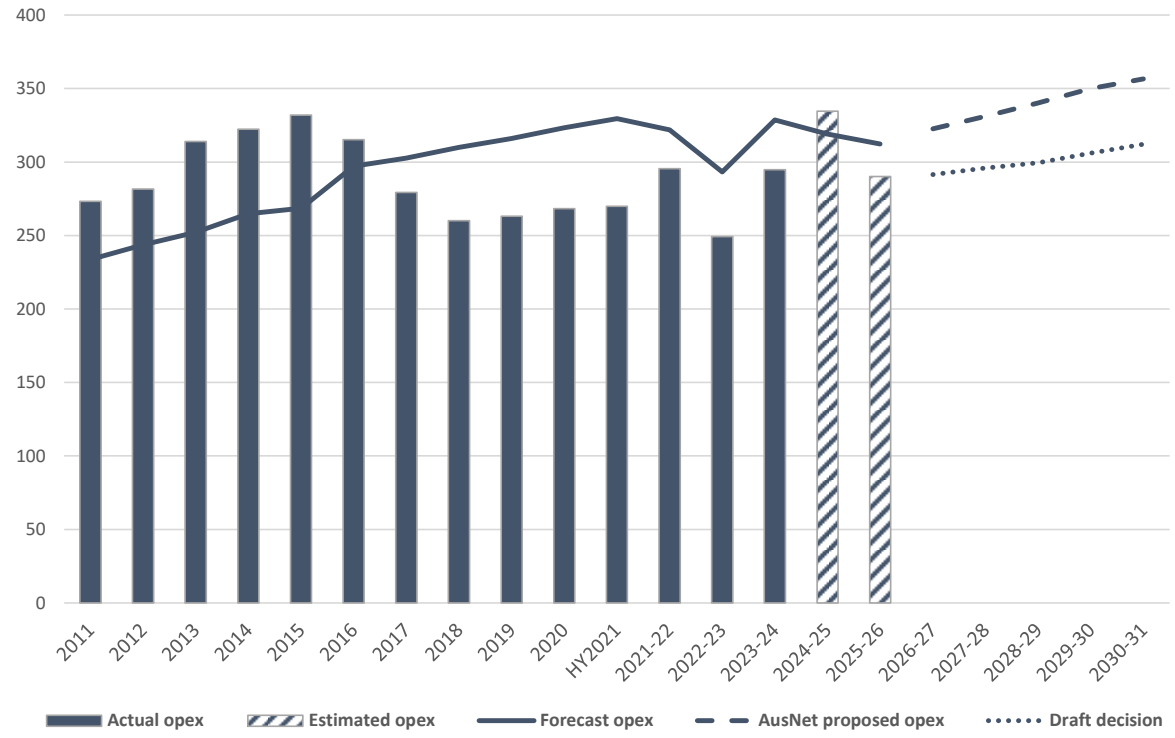
than AusNet's total opex forecast proposal. Therefore, we consider that AusNet's total opex forecast does not reasonably reflect the opex criteria.[37]

Our draft decision is:

- $69.7 million (or 4.4%) lower than the opex forecast we approved in our final decision for the 2021–26 regulatory control period.
- $41.0 million (or 2.8%) higher than AusNet's actual (and estimated) opex in the 2021–26 regulatory control period.

In Figure 12 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.

Figure 12 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 (incl. 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.

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

[37] NER, cl. 6.5.6(c)-(e).

response, Hazard tree program, Customer relationship management and broad communications, and Insurance ($70.8 million in total).

- included lower alternative estimates for the Digital ($26.7 million lower) and Emergency Backstop Mechanism ($16.3 million lower) step changes.
- 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).
- 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 (through the EBSS) ($23.4 million).
- applied our output growth forecast rather than AusNet's, reducing forecast opex by $15.6 million.
- used the latest data for inflation (consumer price index (CPI)).

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 to include the further information we have requested for the proposed Digital step change in its revised proposal.

Our reasoning behind these positions is outlined further detail in Attachment 3.

2.6 Corporate income tax

Our determination of AusNet's ARR includes the estimated cost of corporate income tax for the 2026–31 period.[38] Under the post-tax framework, the cost of corporate income tax is calculated as part of the building block assessment using our PTRM.

Our draft decision determines an estimated cost of corporate income tax amount of zero for AusNet over the 2026–31 period, consistent with AusNet's proposal. This is because we expect AusNet to incur a forecast tax loss in each year of the 2026–31 period.[39] We have determined that $76.2 million in tax losses as at 30 June 2031 will be carried forward to the 2031–36 period where the tax loss will be used to offset future tax liabilities. The forecast tax loss arises mainly because of the carry forward of AusNet's accumulated tax loss at 30 June 2026.

Proposals from Victorian DNSPs have brought into focus the impact that the tax treatment of large customer capital contributions, paid in respect of new, large customer connections has on the revenue recovered from all consumers. We have identified a potential alternative approach drawing on our determinations for the current period. This relates to the DNSPs' proposals that net tax liability arising from capital contribution from large, embedded generators be included in connection charges payable by the generator itself. This approach was proposed to reduce the cross-subsidy paid by the wider consumer base to large,

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38 NER, cl. 6.4.3(a)(4).

39 A forecast tax loss occurs when the forecast taxable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future regulatory control periods to offset future taxable income until the tax loss is fully exhausted.

embedded generator connections and reduce exposure to forecasting risk associated with these connections. Our draft decisions encourage Victorian DNSPs to consider the possibility of extending of this model to other large connecting customers (e.g. data centres) in their revised proposals.

2.7 Revenue adjustments

Our calculation of total revenue for 2026–31 will include adjustments for the expenditure incentive schemes that were applied to AusNet as part of our determination for the current 2021-26 period.

These include:

- A revenue increment of $24.7 million ($2025–26) under the EBSS. This is $15.5 million lower than AusNet's proposal of $40.2 million ($2025–26). This difference reflects adjustments we have made in our draft decision to reflect our latest cost pass through determinations for AusNet and remove non-recurrent efficiency gains, as well as the latest updates for inflation and the weighted average cost of capital (WACC).
- A revenue decrement of $122.1 million ($2025–26) under the CESS, which is $7.0 million greater than AusNet's initial forecast decrement of $115.1 million. This reflects the application of the CESS in the 2021–26 regulatory control period and the corresponding CESS carryover true-up for 2020, as well as the latest updates for inflation and the WACC.

Our draft decision on the application of the CESS and EBSS to AusNet's expenditure in the new, 2026-31 period is discussed in section 3.

Our draft decision also includes an allowance of $4.4 million ($2025-26) under the Demand Management Innovation Allowance Mechanism (DMIAM), to fund research and development in innovative demand management projects that have the potential to reduce long-term network costs.[40] Consistent with the design of the DMIAM, this allowance is included in AusNet's total revenue as a positive revenue adjustment rather than as part of forecast opex or capex. Any unspent portion of the allowance can therefore be returned to consumers as one of the permitted adjustments to revenue under the NER.[41] This is not the case for unspent capex or opex as AusNet has suggested, for example in the case of its proposed innovation allowance and regional reliability allowance for the 2026-31 period. We consider the NER only allows for adjustments in limited circumstances[42] and we do not accept that the businesses can apply a 'use it or loss it' mechanism to select elements of their capex and opex proposals.

AusNet's proposed 2026–31 PTRM contained an 'innovation true up' decrement of $0.2 million to be returned to consumers based on a similar 'use it or lose it' assumption for its expenditure in the 2021-26 period. We consider the NER only allows for adjustments in

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40 We developed and implemented the DMIAM under cl. 6.6.3A of the NER: AER - Demand management innovation allowance mechanism - 14 December 2017.

41 NER, cl. 6.4.3(a)(5).

42 NER, cl. 6.4.3(a)(6).

limited circumstances[43] and we do not accept that the businesses can apply a 'use it or loss it' mechanism beyond those. On this basis we have removed this revenue adjustment.

2.8 Uncertainty mechanisms

Our distribution determination for AusNet will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period. Over the 2026–31 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges.

A distribution business may apply to us seeking the recovery of additional costs incurred during a regulatory period, if certain predefined exogenous events occur as specified in either the NER or in its respective revenue determination. There are 3 prescribed cost pass through events (regulatory change event, service standard event and tax change event) apply to all Victorian DNSPs under the NER. In addition to the NER prescribed pass through events, AusNet proposed 8 nominated pass through events. Of these, 5 were approved as part of our determination for the current period (an insurance coverage event; insurer credit risk event; terrorism event; natural disaster event; and retailer insolvency event). Our draft decision is to accept these again.

While we recognise the important role of pass through events as one element of the framework for managing uncertainty, we are also careful to ensure new nominated events are included only where they reflect an appropriate allocation of risk and are clearly justified with regard to the nominated pass through event considerations in the NER. In this context, we have not accepted the following new cost pass through events AusNet proposed for the 2026-31 period:

- **Major supply chain disruption event**: the risk that the energy transition could increase pressure on the supply of certain materials, commodities and skilled labour, driving prices higher and impacting the costs and deliverability of projects. We do not consider this event to be clearly defined and measurable. In addition, some components of it may already be covered by other existing pass through events. Supply chain disruptions are an inherent business risk that can, in many instances, be mitigated through appropriate planning. These considerations align with similar AER decisions in the past.
- **Electrification event**: the risk of AusNet incurring potential costs due to increased demand on its network if the State or Federal government announces new electrification policies. We do not consider this event to be clearly defined and measurable. We also consider that any potential cost impact of electrification could be largely mitigated by prudent planning, including through AusNet's augex and demand forecasts, and joint planning and consultation with government and other relevant stakeholders. We also consider any sudden, unexpected and material cost impacts arising from an electrification policy announcement to be unlikely over 2026–31. These considerations align with similar AER decisions in the past.
- **AEMO participant fee event**: the potential for AusNet to be charged Participant Fees by AEMO after its current fee structure review. We have not accepted this event at this

[43] NER, cl. 6.4.3(a)(6).

time. We recommend AusNet have regard to AEMO's draft fee structure released in September 2025, and factor this into its revised proposal (due in December 2025). If AEMO's draft decision is to charge participant fees to DNSPs in the 2026–31 period, we would prefer AusNet to include these forecast fees in its revised revenue proposal, rather than recovering costs through the pass through mechanism.

We discuss our assessment on AusNet's proposed new nominated pass through events in more detail in Attachment 4.

3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network.

Our draft decision on the incentive schemes that will apply to AusNet in the 2026–31 period is as follows.

Efficiency benefit sharing scheme (EBSS).

Our draft decision is that the EBSS will continue to apply to AusNet in 2026-31. This provides a continuous incentive to pursue efficiency improvements in main standard control services opex and provide for a fair sharing of these between networks and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods. Our draft decision on the EBSS is set out in Attachment 5.

Capital expenditure sharing scheme (CESS).

Our draft decision is that the CESS will continue to apply to AusNet in 2026-31. This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods. AusNet proposed excluding capex for connections, innovation and its proposed regional reliability allowance from the CESS in the 2026-31 period.

We updated the CESS in August 2025 and introduced a mechanism which takes into account the potential for change in volumes of connections. As the volumetric adjustment is a new addition to the CESS, we are seeking AusNet's views in the revised proposal on how this adjustment can be applied.

We have otherwise maintained our position to not have category specific exclusions beyond the volumetric adjustment for connections. However, we note that AusNet may voluntarily reduce its CESS reward if it does not undertake innovation capex. Our draft decision on the CESS is set out in Attachment 6.

Customer service incentive scheme (CSIS)

Our draft decision is to not apply a CSIS to AusNet in 2026-31.

The CSIS is designed to encourage electricity DNSPs to engage with their consumers, identify (through consumer engagement) the customer services their consumers want improved, and then set targets to improve those services based on their consumers' preferences. We note that AusNet was the first DNSP to propose a CSIS, and that the scheme itself was developed as a result of AusNet's participation in the 2018-2021 'New Reg' trial (a joint initiative between the AER, AusNet, Energy Consumers Australia, and Energy Networks Australia focused on testing innovative consumer engagement methods). Although AusNet's original 2021-26 CSIS functioned as intended in the initial years of the regulatory period, an update to AusNet's customer satisfaction survey methodology resulted

in its suspension for the 2024-25 and 2025-26 regulatory years. The process of implementing changes to the customer satisfaction survey measurement methodology has impacted historical performance and target setting. AusNet does not yet have available baseline data and targets for its CSIS. We have also identified issues with AusNet's proposed revenue at risk and the potential risk of interrelationship with the STPIS. Our draft decision on the CSIS is set out in Attachment 9.

We will instead apply the telephone answering parameter and introduce the new connections parameter of the customer service component of the STPIS. We have observed that CSIS proposals are becoming increasingly homogenised, static, and informed by diminished customer engagement. While our assessment of the new connections parameter is ongoing, we consider that formalising customer service incentive parameters under the STPIS could be a better outcome for consumers. A new connections parameter in the STPIS aligns with our focus on ensuring that network service providers comply with their obligations to provide timely and transparent connections and reflects customers' apparent willingness to pay for the improved services relating to connections.

Service target performance incentive scheme (STPIS).

Our draft decision is that the STPIS will continue to apply to AusNet in 2026-31. The STPIS balances a DNSP's incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to businesses to maintain and improve service performance, and not to reduce costs at the expense of service quality. Once improvements are made, the benchmark performance targets will be tightened in future years. Our draft decision on the STPIS is set out in Attachment 7.

Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM).

Our draft decision is that both the DMIS and DMIAM will continue to apply to AusNet in 2026-31. The DMIS provides network service providers with financial incentives for undertaking efficient demand management activities. The DMIAM funds research and development in demand management projects that have the potential to reduce long-term network costs. Our draft decisions on the DMIS and DMIAM are set out in Attachment 8.

Victorian F-Factor incentive scheme

The F-factor scheme is prescribed by the Victorian Government's 'F-factor scheme order 2016' to reduce the risk of fire starts by network assets.[44] We will continue to adopt our current approach to give effect of the outcomes of the scheme as an 'I-factor' component within the price control formula. Our draft decision on the Victorian f-factor incentive scheme is set out in Attachment 10.

[44] Victoria Government Gazette, G 51, 22 December 2016, p. 3239

4 Network pricing

Our determination for AusNet separates the regulated direct control services it provides into different classifications, which determines how it will recover the cost of providing those services through network prices. We set out our proposed approach to the classification of distribution services to be provided by AusNet in 2026–31 in our Framework and Approach paper in July 2024,[45] at which time service were classified as either:

- Standard control services: those that can only be provided by the relevant DNSP, and are common to most, if not all, of a DNSP's customers. The costs of providing these services are captured in the building block revenue determination discussed in the previous sections of this Overview and shared between all consumers.
- Alternative control services: those that can only be provided by the relevant DNSP but will only be required by some of its customers, some of the time; or services that can be purchased from the relevant DNSP, but which can also—or have the potential to be—purchased from a competing provider. The cost of providing alternative control services is recovered from users of those services only.

However, since the Framework and Approach was published[46], we consider a material change of circumstances has arisen that justifies the classification of a new, negotiated distribution service.

DNSPs can rent their assets to third parties (e.g. office space rental, pole and duct rental for hanging telecommunication wires etc.) for use separately or in addition to essential electricity connection and supply services. These distribution asset rental services are currently not classified (i.e. unregulated), meaning the AER has no role in setting the price or non-price terms offered to customers. When a DNSP's annual unregulated revenues from shared assets are expected to be greater than 1% of its total smoothed annual revenue requirement for that regulatory year, a portion of any revenue earned by a DNSP from distribution asset rental is returned to consumers in accordance with the Shared Asset Guideline.

Our Framework and Approach paper for Victorian DNSPs for the 2026-31 regulatory control period did not classify, or mention, distribution asset rental services in any form.

Since then, we have seen widespread emergence of third-party interest in using DNSP-owned infrastructure as a host for non-DNSP equipment. Particular concerns have been raised by prospective providers of commercial kerbside EV chargers with their ability to rent DNSPs' kerbside poles as a 'host' for EV charging infrastructure. These include the variability, transparency and fairness of access pricing and other terms of pole leasing arrangements. Together these have created a step change in the materiality and relevance of accessing distribution asset rental services (as distinct, for example, from access to

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45 AER – *Final Framework and Approach – Victorian electricity distribution determinations 2026-31* – July 2024, Appendix A.

46 AER - Final Framework and Approach - Victorian electricity distribution determinations 2026-31 - July 2024

regulated connection or metering services) for use by third parties as a host for EV charging infrastructure, and competitive delivery of kerbside EV charging in particular.

Our draft decision is to classify the following new negotiated distribution service, to support negotiation of access to Victorian DNSPs' kerbside poles for that purpose on terms that are fair, reasonable and cost reflective:

> "Distribution asset rental: Rental of distribution assets (e.g. poles) to third parties for the installation of electric vehicle (EV) chargers or associated hardware".

The effect of the negotiated service classification for this service would be that, for the 2026-31 period, negotiations between AusNet and parties seeking access to this new distribution service would be subject to:

- a Negotiating Framework, which sets out the procedure to be followed during negotiations between the DNSP and any person who wishes to receive a negotiated distribution service, as to the terms and conditions of access to the service, and
- Negotiated Distribution Service Criteria (NDSC), setting out the principles that guide negotiations,

both of which will be approved as part of our distribution determination for that period.

We received no submissions on proposed Negotiating frameworks or our proposed Negotiated distribution service criteria in our consultation on these earlier this year. We are mindful, however, that service classifications at the time of that consultation did not include any negotiated services. We therefore welcome any new submissions on the proposed frameworks and criteria now that this has changed. We discuss this further in Attachment 17 to this draft decision.

4.1 Control mechanisms for standard and alternative control services

In our Framework and Approach paper for the 2026–31 period, our proposed approach was to continue to apply the same control mechanisms as we applied in the current, 2021–26 period:

- A revenue cap for standard control services
- A revenue cap for metering services (as alternative control services)
- A price cap for ancillary network services public lighting, and metering exit fees (as alternative control services).

Our draft decision confirms this approach.

In our issues paper, we requested feedback on whether the current form of control mechanism for standard control services remained appropriate, and whether criteria for a change to the control mechanism had been satisfied. Our draft decision is that the above control mechanisms will continue to apply in the 2026–31 period. We discuss this further in Attachment 12 to this draft decision.

4.2 Tariff structure statement

Our draft decision is to not approve AusNet's proposed TSS. We consider AusNet is making some progress on network tariff reform within the constraint of aligning with Victorian Government preferences that customers move only gradually to cost reflective tariffs over the 2026–31 regulatory period. However, we encourage AusNet to further consider how well-designed network tariffs charged to retailers can shift future demand growth out of peak periods and into low/minimum demand periods.

AusNet's proposed TSS for the 2026–31 period is its third TSS since the Australian Energy Market Commission's (AEMC) *Distribution Network Pricing Arrangements* rule change in 2014 that introduced the tariff structure statement framework.[47] The TSS is also AusNet's first since the AEMC's 2021 *Access, pricing and incentive arrangements* rule change that allowed for two-way pricing.[48] Together these rule determinations introduced several reforms to distribution pricing, including to progress cost reflective pricing and to support more CER into the network.

Principally, we assess TSSs against the requirements of the NER and NEL, including the pricing principles and other applicable requirements of the NER.[49] We are also required to make our decisions in a manner that will or is likely to contribute to the achievement of the NEO.[50] For TSSs, we consider the NEO elements of price and achievement of jurisdictional emissions reduction targets to be most relevant.

With each TSS we also look at how a DNSP has responded to the reforms mentioned above. A TSS informs use of the network by:

- providing clear price signals of what it costs to use the network at different times, allowing consumers (or their retailers) to make informed decisions to better manage bills
- transitioning tariffs to greater cost reflectivity while requiring DNSPs to explicitly consider the impacts on retail customers, by engaging with consumers, consumer representatives and retailers in developing network tariff proposals
- managing future expectations by setting out the DNSP's tariff approaches for a set period of time.

A TSS must set out several matters. These include tariff classes, proposed tariffs and the structures and charging parameters, the strategy for introduction of export tariffs, and the approach to setting tariff levels in each year of the regulatory control period.[51] The policies and procedures that will be used to assign customers to tariffs or reassign customers from one tariff to another must also be outlined.

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47 AEMC, *Rule Determination – National Electricity Amendment (Distribution Network Pricing) rule 2014,* November 2014.

48 AEMC, *Rule Determination – National Electricity Amendment (Access, Pricing and Incentive Arrangements for Distributed Resources) rule 2021,* August 2021.

49 NEL, s. 16(2). The national electricity objective is in NEL, s. 7.

50 NEL, s. 16(1)(a).

51 NER, cl. 6.18.1A(a).

While an indicative pricing schedule must accompany the TSS, the tariff levels for each tariff for each year of the 2026–31 period are not set as part of this determination.[52] Tariff levels for the regulatory year commencing 1 July 2026 will be subject to a separate, annual approval process beginning in May 2026, after we have made our final revenue determination in April 2026.[53]

4.2.1 Our draft decision and its context

Network tariff reform enables DNSPs to charge retailers in a manner which more closely reflects the cost of providing electricity network capacity to end-use consumers and can support the energy transition currently underway. Where price signals are passed through, and consumers are well placed to respond to these price signals, appropriately structured tariffs can enable growth in the value consumers derive from their CER, and in the number of consumers with CER. At the same time, this response to price signals can reduce network constraints and minimum load issues and therefore reduce the level of network investment required, resulting in lower prices for all consumers.

Our draft decision does not approve AusNet's proposed TSS. We accept that some individual elements comply with the pricing principles and contribute to achievement of the NEO. However, we strongly encourage AusNet to reflect further on its assumption of no consumer response to its small customer tariffs in its demand forecasts[54] (other than those implicit through AusNet's use of historical trends and AEMO's EV charging forecasts). Our draft decision emphasises the capacity for well-designed network tariffs to shift *future* demand growth out of peak periods and into low/minimum demand periods. We have provided examples in Attachment 13 of consumers responding to price signals. We therefore consider AusNet should engage further with its stakeholders, including retailers, on the benefits of assigning small customers to cost reflective tariffs in the 2026–31 period where they can benefit from low off-peak rates, and should further explain the interrelationship between its tariff strategy and its wider proposal (including demand forecasts and proposed expenditure) in its revised proposal overview.[55]

AusNet is also required to make the following changes in its revised TSS for the elements that we do not approve in this draft decision. These changes are required for AusNet's TSS to achieve compliance with the NER pricing principles and contribute to the achievement of the NEO:

- recalculate its long-run marginal costs to reflect at least a 10-year time horizon and to include (in its export long-run marginal cost) all relevant export costs
- include further information to justify its proposed basic export level[56] of 1 kWh/day for its proposed CER tariff

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52 NER, cl. 6.8.2(d1).

53 This will occur pursuant to obligations in cl. 6.18.2 and cl. 6.18.8 of the NER.

54 AusNet Services, *Tariff Structure Explanatory Statement 2026–31, January 2025*, p. 16.

55 NER, cl 6.8.2(c1)(1)(v).

56 The basic export level is the amount of electricity that a customer will be able to export to the grid at no cost (NER cl. 11.141.12). The basic export level must apply for a 10-year period (that is, for two regulatory periods). This may be adjusted within the 10-year period.

- provide network bill impacts for residential customers affected by AusNet's proposed closure of its residential demand tariff and inclusion of its proposed CER tariff consistent with NER cl. 6.18.5(h)
- provide network bill impacts for large customers reassigned from legacy single rate or time-of-use tariffs to transitional critical peak demand tariffs
- clarify that its proposed dedicated circuit tariff will include 6 – 8 hours of supply
- more thoroughly explain how residual costs are recovered and demonstrate that revenue recovered from each proposed tariff reflects the total efficient costs of serving the customers assigned to it
- consider how to incorporate new type 9 meters in the TSS.

We note that AusNet, along with the other Victorian DNSPs, also retained its opt-out assignment to cost reflective tariffs for *new* small customers with smart meters, and its largely opt-in assignment to cost reflective tariffs for *existing* customers. For example, AusNet will not assign existing small customers to cost-reflective tariffs except in limited circumstances. This includes if they own EV fast chargers or upgrade to 3-phase. Customers with EV fast chargers will not be able to opt-out to single rate tariffs. AusNet's assignment policies align with the Victorian Government's preference that customers move only gradually to cost reflective tariffs over the 2026-31 regulatory period.[57] This means that despite having near-universal smart meter penetration in Victoria since 2013, the proportion of consumers in Victoria on cost reflective pricing is low compared to other jurisdictions in the NEM.

Encouraging opt-in to, and a response to, cost reflective tariffs is particularly important for AusNet given the significant demand-driven augmentation expenditure proposed by the Victorian DNSP's. AusNet's (and the other Victorian DNSPs') view that small customers are not responding to price signals warrants further consideration and response by AusNet. It does not align with outcomes from trial tariffs or experience emerging from other DNSPs. We continue to consider that tariffs are an important, low-cost tool DNSPs can use to mitigate expenditure in the 2026–31 period and future periods by incentivising use of existing network capacity.

To progress tariff reform under its assignment polices and encourage customers to opt-in to a more cost reflective tariff, AusNet proposed to continue to discount its residential time-of-use tariff by 1% each year. This would mean that by 2031 this tariff would be on average 10% cheaper than AusNet's non-cost reflective single rate/flat residential tariff. AusNet also progressed tariff reform by proposing a solar soak (low priced) period in the middle of the day for the residential time-of-use tariff, an opt-in CER (two-way) tariff, amendments to large customer critical peak demand charges, and individually calculated tariffs for very large customers.

However, we are not convinced that AusNet has done all it can to utilise and/or encourage take-up of cost reflective tariffs to encourage efficient use of the network. We therefore encourage AusNet to continue trial tariffs aimed at more flexible load, like EVs or home

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57 Hon. Lily D'Ambrosio MP, *Submission on Victorian Electricity Distribution Proposals 2026-31*, June 2025.

batteries, whose response to network price signals could help mitigate the need for network investment. We also consider that improved calculations of long-run marginal costs will assist AusNet's tariffs to better reflect efficient costs and improve the accuracy (and therefore effectiveness) of its price signals, particularly to manage flexible loads. Given the changes currently taking place in the energy sector there exists opportunity for AusNet (and other DNSPs) to further refine and develop their long-run marginal cost methodologies.

In addition to the required changes, we encourage AusNet to consider making minor improvements in its revised TSS. These include considering expansion of accessibility to its dedicated circuit tariffs and including additional supporting information on its network bill impacts for some customers.

In Attachment 13, we describe in further detail the reasons for our decision and the changes that we consider necessary for us to approve AusNet's TSS proposal, as well as the changes we encourage AusNet to make.

4.3 Alternative control services

4.3.1 Public lighting

Public lighting services include the provision, construction and maintenance of public lighting assets. This includes technologies such as energy-efficient light emitting diode (LED) luminaires and emerging public lighting technologies such as smart-enabled luminaires.

Our draft decision is to not accept AusNet's public lighting proposal, although we consider it is largely reasonable. For the draft decision we have made several updates to the public lighting model inputs, including to increase the photo electric cell replacement cycles and for more mechanical changes related to updated inflation and labour escalators inputs. This results in prices for 2026–27 that are on average 2.2% lower in the Central region and 2.1% lower in the North and East regions when compared to AusNet's proposal.

We encourage AusNet to consult further with its stakeholders to inform its revised proposal. This consultation should include matters such as an accelerated LED rollout, smart lighting services and funding options for this rollout. These issues reflect those raised in a submission to our issues paper from the Victorian Greenhouse Alliances.

The reasoning behind our draft decision is outlined in further detail in Attachment 14.

4.3.2 Metering services

Metering services include maintenance, reading, data services, and the recovery of capex related to metering assets. Unlike other jurisdictions in the NEM, Victorian DNSPs are the monopoly providers of most metering services to small customers. This includes smart meters which are a part of regulated alternative control services.

Our draft decision is not to accept AusNet's metering proposal. For the draft decision we have made several adjustments to the forecast capex. This includes lower labour costs associated with the proactive replacement of meters approaching end of life, reflecting the greater efficiency opportunities we think are available. We have also removed components of the proposed IT capex that we do not consider are justified, revised the allocations of capex to SCS and made more mechanical changes related to updated inflation, rate of return and

labour escalators inputs. Overall, this results in a decrease of $8.3 million ($nominal) or 3.7% from AusNet's proposed total revenue requirement for metering of $221.3 million ($nominal, smoothed) for the 2026–31 period.

We encourage AusNet to consider the metering adjustments that we have made in this draft decision and respond to these in its revised proposal and to incorporate the outcomes of any further stakeholder engagement it undertakes.

The reasoning behind our draft decision is outlined further detail in Attachment 15.

5 Constituent decisions

In accordance with clause 6.12.1 of the NER, this draft decision on the distribution determination that will apply to AusNet for the 2026-31 period is predicated on the following constituent decisions.

Table 4 Constituent decisions

NER cl. 6.12.1	Constituent decision
6.12.1(a)	The AER's draft decision is that the classification of services set out in Attachment 11 will apply for the 2026-31 regulatory control period.
6.12.1(b)(i)	The AER's draft decision is not to approve the annual revenue requirement as set out in the building block proposal for each regulatory year of the 2026–31 regulatory control period. The AER's draft decision on the annual revenue requirement for each regulatory year of the 2026–31 regulatory control period is set out in Attachment 1.
6.12.1(b)(ii)	The AER's draft decision is to approve the commencement and length of the regulatory control period as proposed in the building block proposal. The AER's draft decision is that the regulatory control period will commence on 1 July 2026, and that the length of the regulatory control period will be 5 years (concluding 30 June 2031).
6.12.1(b1)	The AER did not receive a request for an asset exemption under clause 6.4B.1(a)(1) of the NER and therefore has not made a decision in accordance with clause 6.12.1(b1).
6.12.1(c)	Acting in accordance with clause 6.5.7(d) of the NER, the AER's draft decision is not to accept the total of the forecast capital expenditure for the regulatory control period that is included in the current building block proposal. The AER's draft decision therefore sets out an alternative estimate of the total of the required capital expenditure of $1,701.4 million ($2025–26). The reasons for the AER's decision are set out in Attachment 2.
6.12.1(c1)	The AER's estimate of the total of the required capital expenditure under cl. 6.12.1(c) (above) does not include expenditure for a restricted asset.
6.12.1(d)	Acting in accordance with clause 6.5.6(d) of the NER, the AER's draft decision is not to accept the total of the forecast operating expenditure for the regulatory control period that is included in the current building block proposal. The AER's draft decision therefore sets out an alternative estimate of the total of the required operating expenditure of $1,504.2 million ($2025-26). The reasons for the AER's decision are set in Attachment 3.
6.12.1(d1)	AusNet did not propose any contingent projects and therefore the AER has not made a decision under clause 6.12.1(d1) of the NER.
6.12.1(e)	The AER's draft decision on the allowed rate of return for the 2026–27 regulatory year is 6.06% (nominal vanilla) for the reasons set out in Section 2.2 of this Overview. The rate of return for the remaining regulatory years of the

NER cl. 6.12.1	Constituent decision
	2026–31 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
6.12.1(e1)	The AER's draft decision on the allowed imputation credits for each regulatory year or the regulatory control period is 0.57.
6.12.1(f)	The AER's draft decision on the regulatory asset base as at the commencement of the 2026–31 regulatory control period, in accordance with clause 6.5.1 and schedule 6.2 of the NER, is $6,129.0 million ($nominal). The reasons for the AER's decision are set out in Attachment 1.
6.12.1(g)	The AER's draft decision on the estimated cost of corporate income tax for each regulatory year of the 2026–31 regulatory control period, in accordance with clause 6.5.3, is zero dollars. The reasons for the AER's decision are set out in Attachment 1.
6.12.1(h)	The AER's draft decision is not to approve the depreciation schedules submitted by AusNet. The AER has therefore determined depreciation schedules in accordance with cl. 6.5.5(b). The regulatory depreciation amount approved in this draft decision is $876.6 million ($ nominal) for the 2026–31 regulatory control period. The reasons for the AER's decision are set out in Attachment 1.
6.12.1(i)	The AER's draft decision on how applicable incentive schemes are to apply to AusNet is: • Version 2 of the Efficiency Benefit Sharing Scheme will apply. Our reasons are set out in Attachment 5. • Version 4 of the Capital Expenditure Sharing Scheme will apply. Our reasons are set out in Attachment 6. • Version 2.0 of the Service Target Performance Incentive Scheme (including the customer service component) will apply. This is discussed in Attachment 7. • the Demand Management Incentive Scheme will apply. Our reasons are set out in Attachment 8. • the Demand Management Innovation Allowance Mechanism will apply. Our reasons are set out in Attachment 8. • the Customer Service Incentive Scheme will not apply. Our reasons are set out in Attachment 9.
6.12.1(j)	The AER's draft decision is that all other appropriate amounts, values and inputs are as set out in this draft decision, including in supporting models and attachments.
6.12.1(k)	The AER's draft decision on the form of the control mechanism(s) (including the X factor) for standard control services is, in accordance with the Framework and Approach Paper, a revenue cap. The AER's draft decision on the formulae that give effect to the revenue cap form of control mechanism is set out in Attachment 12.

NER cl. 6.12.1	Constituent decision
6.12.1(l)	The AER's draft decision on the form of the control mechanism(s) for alternative control services is, in accordance with the Framework and Approach Paper: • For metering services – a revenue cap. • For ancillary network services public lighting, and metering exit fees – a price cap. The AER's draft decision on the formulae that give effect to those control mechanisms is set out in Attachment 12.
6.12.1(m)	The AER's draft decision on how AusNet is to demonstrate compliance with the control mechanisms above is: • For Standard Control Services: maintain distribution unders and overs mechanisms through the annual pricing model templates. • For Alternative Control Services – metering services revenue cap: maintain metering services unders and overs account through the annual pricing model templates. • For Alternative Control Services – price caps: demonstration that proposed prices are compliant with price caps through the annual pricing model templates. These mechanisms and processes to demonstrate compliance are set out in Attachment 12.
6.12.1(n)	The AER's draft decision is that the following additional pass through events are to apply for the regulatory control period in accordance with clause 6.5.10: • insurance coverage event • insurer credit risk event • terrorism event • natural disaster event • retailer insolvency event. These events have the definitions set out in Attachment 4.
6.12.1(n1)	The AER's draft decision is not to approve the TSS proposed by AusNet. The reasons for our draft decision are set out in Attachment 13.
6.12.1(o)	The AER's draft decision is that the negotiating framework proposed by AusNet is to apply for the regulatory control period. Our reasons are set out in Attachment 17.
6.12.1(p)	The AER's draft decision is that the Negotiated Distribution Service Criteria set out in Attachment 17 will apply to AusNet for the regulatory control period. The reasons for the AER's decision are set out in Attachment 17.
6.12.1(q)	The AER's draft decision on the policies and procedures for assigning retail customers to tariff classes, or reassigning retail customers from one tariff class to another, is set out in Attachment 13.

NER cl. 6.12.1	Constituent decision
6.12.1(r)	The AER's draft decision is that depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period (as at 1 July 2031) is to be based on forecast capital expenditure. The reasons for our draft decision are set out in Attachment 1.
6.12.1(s)	The AER's draft decision on how AusNet is to report to the AER on its recovery of designated pricing proposal charges for each regulatory year of the regulatory control period, and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those charges, is through the unders and overs mechanism. This is to be demonstrated through the use of the annual pricing model templates and is set out in Attachment 12.
6.12.1(t)	The AER's draft decision on how AusNet is to report to the AER on its recovery of jurisdictional scheme amounts and pass through of jurisdictional scheme refund amounts for each regulatory year of the regulatory control period, and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those amounts, is through the unders and overs mechanism. This is to be demonstrated through the use of the annual pricing model templates and is set out in Attachment 12. This draft decision applies to each jurisdictional scheme under which AusNet has jurisdictional scheme obligations within the operation of this draft decision.
6.12.1(u)	The AER's draft decision is that a variant of the connection policy as proposed by AusNet, set out in Attachment 16, is to apply to AusNet for the regulatory control period. The reasons for the AER's decision are set out in Attachment 16.
Other constituent decisions	
	In accordance with section 16C of the *National Electricity (Victoria) Act 2005*, the NEL, the NER and the 'f-factor scheme order 2016',[58] the AER's draft decision is to apply the f-factor incentive payments/penalties as a part of the 'I-factor' adjustment to the calculation of the total annual revenue requirement using the formulae in Attachment 12.

Notes: In this table, 'regulatory control period' means the period 1 July 2026 to 30 June 2031 determined in accordance with clause 6.12.1(b)(ii).
References in this table to 'the current proposal', 'the building block proposal', 'the current building block proposal' and to documents submitted or matters proposed by AusNet are to the regulatory proposal and TSS submitted by AusNet on 31 January 2025.
References in this table to 'the Framework and Approach Paper' are to AER – *Final Framework and Approach – Victorian electricity distribution determinations 2026-31* – July 2024 published by the AER on 31 July 2024.

Source: References in this table to where detailed constituent decisions can be found are to documents and models published on the AER's website.

[58] http://www.gazette.vic.gov.au/gazette/Gazettes2016/GG2016G051.pdf, Victoria Government Gazette, G 51 22 December 2016, p. 323

6 List of submissions

	Date
AGL	June 2025
AusNet Coordination Group	May 2025
AusNet Innovation Advisory Committee	May 2025
AER Consumer Challenge Panel (CCP32)	May 2025
Electric Vehicle Council	May 2025
Hon Lily D'Ambrosio MP	June 2025
Origin Energy	May 2025
Save Our Surroundings Riverina	May 2025
Victorian electricity distribution businesses	May 2025
Victorian Greenhouse Alliances	May 2025

7 Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARR	Annual revenue requirement
Augex	Augmentation expenditure
Capex	Capital expenditure
CCP32	Consumer Challenge Panel, sub-panel 32
CER	Consumer Energy Resources
CESS	Capital expenditure sharing scheme
CPI	Consumer price index
CSIS	Customer service incentive scheme
DMIAM	Demand management innovation allowance mechanism
DMIS	Demand management incentive scheme
DNSP	Distribution Network Service Provider
EBSS	Efficiency benefit sharing scheme
EV	Electric Vehicle
GWh	Gigawatt hour
ICT	Information and communication technology
LED	Light emitting diode
MWh	Megawatt hour
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RBA	Reserve Bank of Australia

Term	Definition
Repex	Replacement expenditure
RFM	Roll forward model
RORI	Rate of return instrument
SCS	Standard control services
SMP	Statement on monetary policy
STPIS	Service target performance incentive scheme
TOU	Time-of-use
TSS	Tariff structure statement
TUOS	Transmission use of system charges
WACC	Weighted average cost of capital
WPI	Wage price index