Issues paper

AusNet Services electricity transmission determination 2027–32

(1 April 2027 to 31 March 2032)

December 2025

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	12 December 2025	39

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable and affordable energy future for Australia.

We regulate electricity networks in all jurisdictions except Western Australia. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO) which promotes efficient investment in, and operation and use of, electricity services in the long term interests of consumers.[1]

As part of this, we set the maximum revenues that networks are allowed to recover from consumers through their network charges (this is known as the 'revenue cap' form of control). The amount of these revenues is based on our assessment of efficient costs and a realistic expectation of forecast electricity demand. By only allowing efficient costs we ensure that consumers pay no more than necessary for the safe and reliable delivery of electricity.

AusNet Transmission Group Pty Ltd (ABN 78079798173) (hereby *AusNet*) is a regulated transmission network service provider. On 31 October 2025, AusNet submitted its electricity transmission revenue proposal for the period 1 April 2027 to 31 March 2032 (2027–32 period). Our final decision on this proposal will set the revenue allowance that forms the major component of AusNet's transmission charges for the 5-year period (2027–32).

This Issues paper highlights some of the key elements of the proposal, and identifies issues that, on preliminary review, are likely to be the focus of our assessment.[2] We have set out a number of questions throughout this paper. Stakeholders can assist our process by providing their views on these or any other aspect of the proposal.

We have framed the discussions of the key components for the proposal with reference to our Better Resets Handbook, which sets out a number of expectations (consistent with the NER framework) in topic areas such as capital and operating expenditure and regulatory depreciation, which tend to have the most significant impact on consumer bills.[3]

In making our assessment we will have regard to the extent to which the proposal has been driven by, and now reflects, the preferences and priorities that have been put to AusNet through its engagement with stakeholders. Stakeholder engagement is an important factor in our assessment; however, we are still required to ensure we are satisfied that the proposed revenues reasonably reflect prudent and efficient expenditure and a realistic expectation of future demand and cost inputs. Together, these considerations support a decision that will ensure Victorians are paying no more than necessary for safe, reliable and secure delivery of electricity services that contributes to the reduction of greenhouse gas emissions.

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1 NEL, s. 7.

2 As required under the National Electricity Rules (NER or Rules), cl. 6A.11.3(b1).

3 AER, *Better resets handbook – Toward consumer-centric network proposals* – 30 July 2024.

1.1 Our process

This Issues paper is the first stage in our consultation on AusNet's proposal. Submissions and views shared with us at this stage of consultation will help to inform our draft decision on this proposal next year. We have included questions in this Issues paper to help guide your feedback. A consolidated list of questions is at page 38 of the document.

AusNet will have the opportunity to respond to any concerns raised in our draft decision in a revised proposal. We will seek further submissions on both our draft decision and AusNet's revised proposal before making our final decision in January 2027.

Table 1: Indicative timeline

Milestone	(Indicative) date
Regulatory proposal submitted to AER	31 October 2025
AER Issues paper	12 December 2025
AER Public forum	17 December 2025
Submissions on proposal and Issues paper close	13 February 2026
AER to publish draft decision	(June 2026)
AER to hold a public forum on draft decision (predetermination conference)	(July 2026)
AusNet to submit revised regulatory proposal to AER	(August 2026)
Submissions due on draft decision and revised proposal	(September 2026)
AER to publish final decision	(January 2027)

1.2 Have your say

Interested stakeholders are invited to make a submission on AusNet's proposal by Friday, 13 February 2026.

Submissions should be sent to AERresets2027-32@aer.gov.au and addressed to Dr Kris Funston, Executive General Manager Network Regulation. Alternatively, you can mail submissions to GPO Box 3131, Canberra ACT 2601.

Submissions should be in Microsoft Word or other 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.

We request parties wishing to submit confidential information: clearly identify the information that is the subject of the confidentiality claim; and provide a non-confidential version of the submission in a form suitable for publication.

1.2.1 Public forum

Please join us at an online public forum on 17 December 2025 to learn more about our process, AusNet's proposal and to provide your feedback. Registration details are available on our website and through Eventbrite.

2 AusNet's role in the Victorian transmission system

AusNet own and operate the transmission network in Victoria. The network spans over 6,500 kilometres of transmission lines and transports electricity from generators to the state's 5 distribution networks and large commercial customers. The network also provides connections to New South Wales, South Australia and Tasmania.[4]

Unlike the transmission networks in the other states and territories of the national electricity market (NEM), AusNet does not have the responsibility for planning and expanding the network to meet changes in electricity generation and demand. This role is carried out by the state planner and was recently transferred from the Australian Energy Market Operator (AEMO) to VicGrid – a State Business Corporation.[5]

AusNet's key functions are to operate the existing network by providing shared transmission services to VicGrid and connection services to generators, distributors and large industrial customers. AusNet is also responsible for the maintenance and replacement of the existing assets of the network to ensure that the system is providing safe and reliable energy to consumers.

2.1 Developments in Victoria

The Victorian transmission system is undergoing significant changes as a result of the ongoing shift to electrification and uptake of renewable sources of energy. These broad developments are driving national and state network planning by AEMO in its Integrated System Plan (the ISP), and by VicGrid in its Victorian Transmission Plan (the VTP).

The ISP provides a long-term plan for where transmission, generation and storage is needed across the NEM and will include the projects identified in the VTP in its assumptions. The VTP provides a detailed plan for the development of the Victorian network as it transitions from coal-fired power out to 2040. Projects developed in these plans are delivered by VicGrid and other planning authorities and do not feature in AusNet's proposal. AusNet may, however, participate in either competitive or non-competitive projects as they are delivered by VicGrid.

Significant augmentation projects currently underway in Victoria include the NSW Interconnector (VNI West), the Western Renewables Link, Project Marinus and a connection to Project Energy Connect, which runs from SA to NSW.[6] These projects are designed to facilitate the connection of renewable energy generation and to provide system stability. Moreover, VicGrid's VTP sets out 7 programs of transmission infrastructure investment to be

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4 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p.18.

5 AEMO's functions to plan and augment the network were transferred from 1 November 2025. This follows the passing of legislation in the Victorian Parliament of the National Electricity (Victoria) Amendment (VicGrid Stage 2 Reform) Bill 2025 on 16 September 2025.

6 These projects are 'actionable' projects developed in the Integrated System Plan, which guides investment by jurisdictional planning bodies such as VicGrid.

implemented by 2040. AusNet must ensure that their capex proposals do not overlap with the VTP and are in line with VicGrid's plans to expand the network.

The electrification and transition to renewable generation also affects AusNet's role as the operator of the network. This is because these changes present challenges in operating a network where energy generation is more diversified, demand is more volatile and supply more intermittent.[7] These challenges, along with external climate and cyber threats, also present challenges for maintaining the safety and reliability of the network. The sections below outline the key trends in Victoria[8] and examples of how they relate to AusNet's proposal.

2.1.1 The diversification in the location of generation

Historically, Victoria's electricity largely came from large brown coal generators in the Latrobe Valley in the east of the state. Now supply is increasingly generated from renewable resources throughout Victoria, including west Victoria where capacity of the transmission system is lower. This trend will increase with the formal introduction of renewable energy zones in coming years.

The changing location of supply is driving investment decisions by VicGrid (formerly undertaken by AEMO) to build additional capacity on Victoria's declared network. These investment decisions do not feature in this regulatory decision. However, AusNet is required to consider the network augmentation plans by VicGrid to ensure its forecast capital expenditure to maintain the transmission system does not overlap with future augmentation of the network.

For example, VicGrid have planned for two augmentation projects to occur during the 2027–32 regulatory control period. The aim of these projects is to respond to the geographic shift in energy supply by increasing capacity of the western and eastern transmission corridors. In assessing AusNet's proposal, we would expect its plans for replacing assets along these corridors (such as switchgears, conductor lines and insulators), do not overlap with VicGrid's plans to build additional network capacity.

2.1.2 Changing demand and supply patterns

Electricity consumption is forecast to rise due to the ongoing electrification of the energy system. However, the daily oscillation in demand for electricity from the grid is expected to widen. Maximum demand from the grid is forecast to grow over the next 10 years due to increases in consumption from data centres and large industrial loads, while minimum demand is also forecast to decline over the same period due to solar PV meeting more of the energy needs of households during the daytime.[9]

Generation patterns are also changing as centralised baseload coal-fired power stations are replaced with decentralised intermittent renewable generation, particularly solar and wind.

The changing demand and generation patterns present challenges for network operators and planners to maintain a safe and reliable energy system. VicGrid is responsible for implementing network and non-network solutions to meet these challenges. This includes

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7 Adapted from AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 7.

8 Informed by the themes outlined in the: AEMO – 2025 Victorian Annual Planning Report – October 2025 and AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025.

9 AEMO – 2025 Victorian Annual Planning Report – October 2028, p. 3.

investing in technologies such as synchronous condensers to maintain grid stability and prevent the potential for shortfalls in energy.

We note that AusNet's proposal considers these issues, insofar that the changing way electricity is used in the transmission system affects the maintenance of existing infrastructure and the way that it needs to operate the transmission system (such as managing critical lows in system demand).[10]

2.1.3 Challenges to the system – system strength and climate resilience

System strength is a key challenge for the transmission network as it shifts away from transporting centralised baseload power generation to a greater share of dispersed intermittent renewable energy generation.

VicGrid is primarily responsible for planning and implementing solutions to system strength and reliability of the transmission network. However, AusNet's revenue proposal does include expenditure to deal with the rising complexities of operating a transmission network.

In recent times, networks have highlighted the need for greater network resilience to deal with increasing climate related events. We have seen severe weather events in Victoria, with storms in 2021 and 2024 resulting in power outages for customers.

AusNet's proposal also includes expenditure in relation to resilience to storm events. While most of the investment in network resilience has been focused on the distribution network, AusNet have proposed a program to strengthen towers in locations identified to experience very strong localised winds.

Questions on AusNet's role

1) Do you have any concerns about AusNet's proposal and its relationship with VicGrid's augmentation plans to develop the network outlined in the VTP?

[10] AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 63.

3 Initial observations

In this section we explore the key drivers of AusNet's proposed revenue for the 2027–32 period, and the preliminary issues we consider are likely to be relevant to our assessment.

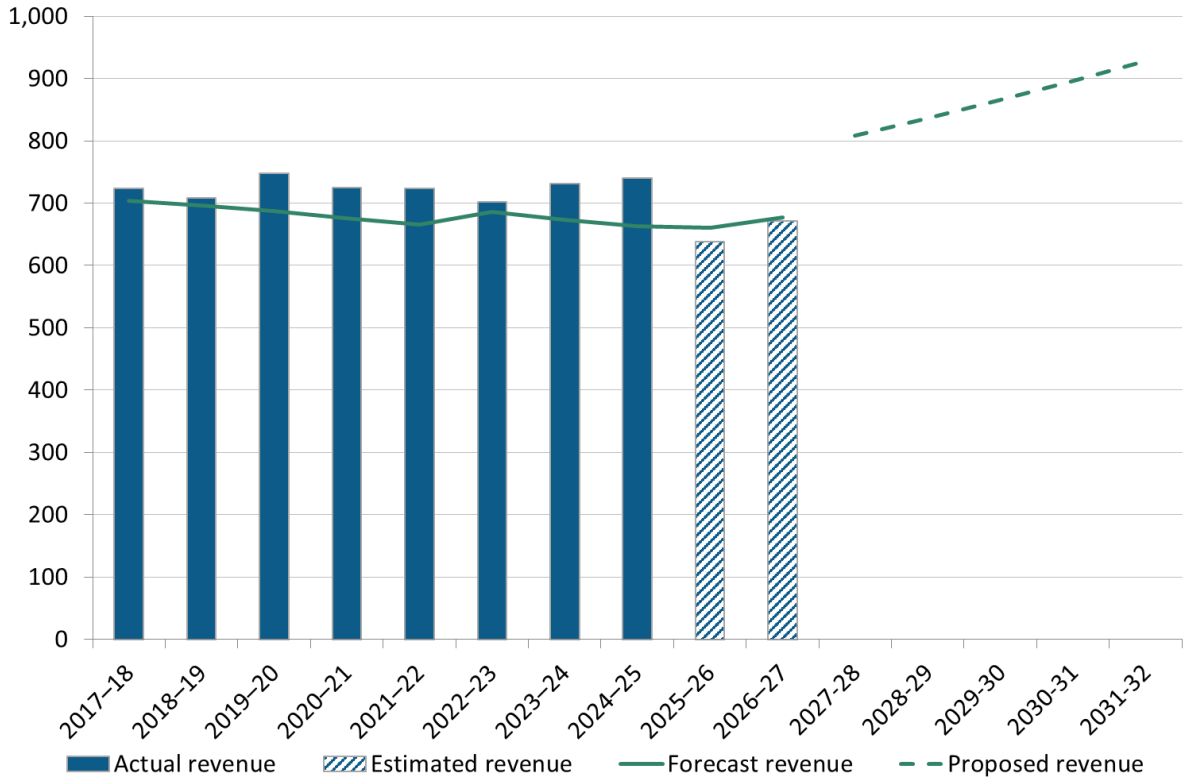
3.1 Key drivers of proposed revenue

AusNet has proposed total revenue of $4,696.0 million ($nominal, smoothed) to be recovered from electricity transmission customers over the 2027–32 period. This is 60.0% higher than what we approved for the current (2022–27) period.

We estimate that approximately 59% of the increase in revenue proposed for the next regulatory period is driven by higher proposed capital expenditure (capex) and operating expenditure (opex), and demonstrates the need to ensure that the proposal reflects consumer interests in the most efficient and prudent way possible. The other 41% of the increase is due to updated forecast inflation and regulated rate of return, which are both higher compared to our previous determination.

To compare revenue from one regulatory period to the next on a like-for-like basis, we make an adjustment for the impact of inflation. In 'real' terms, AusNet's proposal would allow it to recover $4,338.3 million ($2026–27, unsmoothed) from consumers over the 2027–32 period. This is $966.9 million (28.7%) higher than our decision for the current period (Figure 1).

Figure 1 Changes in regulated revenue over time ($ million, 2026–27)

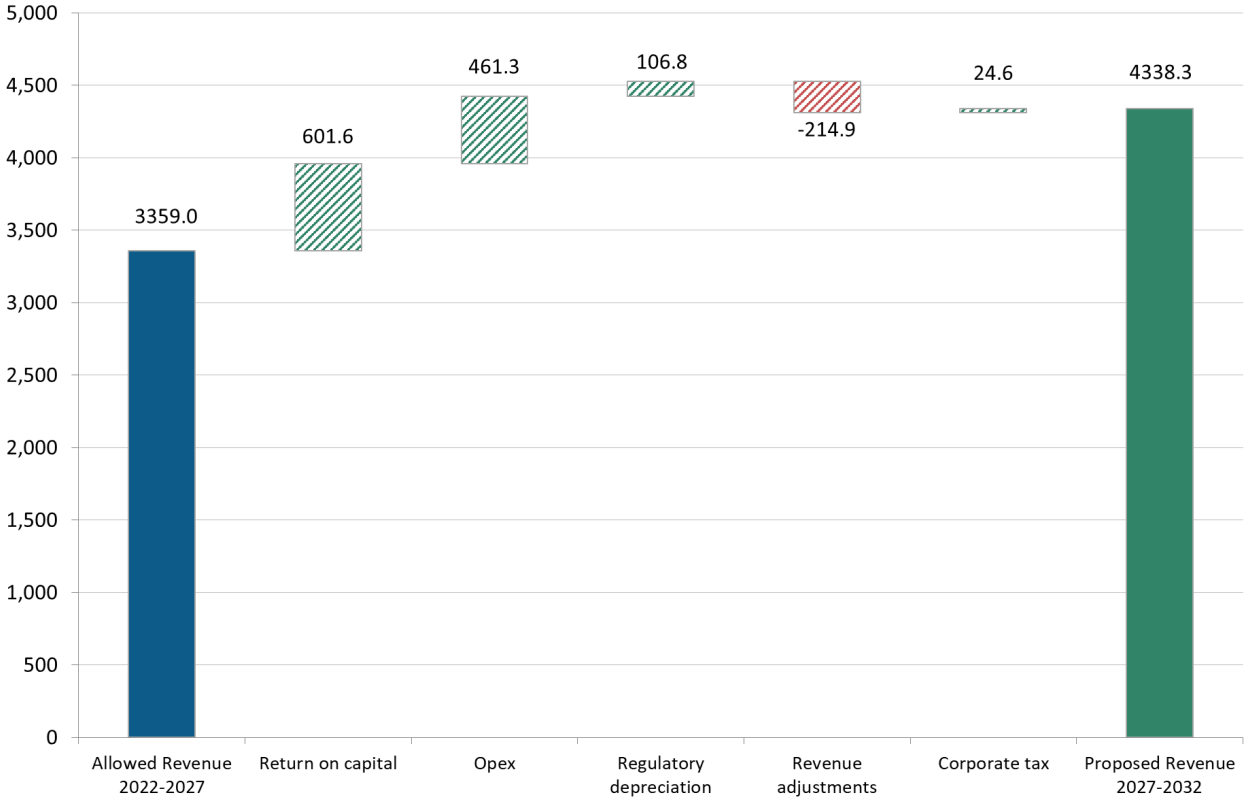


Source: AER analysis.

Note: The higher actual revenue compared to the forecast revenue is primarily driven by the incentive scheme adjustments (such as the Service target performance incentive scheme) and cost pass throughs (such as the easement land tax pass through) which are not included in the forecast revenues.

Figure 2 shows the broad changes in revenue at the 'building block' level to illustrate what is driving AusNet's proposed increase in total revenue from 2022–27 to 2027–32.

Figure 2 Changes in revenue building blocks ($ million, 2026–27, unsmoothed)



Source: AER analysis.
Note: This comparison is based on 2026–27 dollar terms using lagged CPI.

The overall upward trend in revenue is primarily driven by a higher return on capital, opex and regulatory depreciation amounts.

The higher return on capital over the 2027–32 period is driven by a higher than expected opening regulatory asset base (RAB), AusNet's proposal to more than double its capex compared with the current regulatory period and a higher regulated rate of return to be applied to its asset base over the next period:

- AusNet's opening RAB is higher than our forecast at the 2022–27 determination. This is primarily driven by a higher actual inflation outcome compared to the expected inflation at the 2022–27 determination, an estimated overspend in capex for the current regulatory period and by AusNet's proposed roll-in of 'growth assets' reflecting the transmission planning arrangement in Victoria (explained further below).
- AusNet's proposed forecast capex for 2027–32 is more than double the forecast included in our 2022–27 determination. This leads to significant growth in the forecast RAB over the 2027–32 period, leading to a higher return on capital amount.

The higher opening RAB and capex has led to a higher regulatory depreciation amount, partially offset by a higher expected inflation compared to the 2022–27 period.

AusNet's proposed forecast opex for 2027–32 is another key driver of higher proposed revenue. This is driven by a significantly higher forecast base year. A higher corporate income tax further contributes to the proposed increase in the revenue requirement.

This forecast increase in revenue is partially offset by incentive mechanism penalties due to AusNet's capex exceeding the forecast amount approved in the 2022–27 determination and an EBSS penalty as a result of a higher opex base year proposed for the next period.

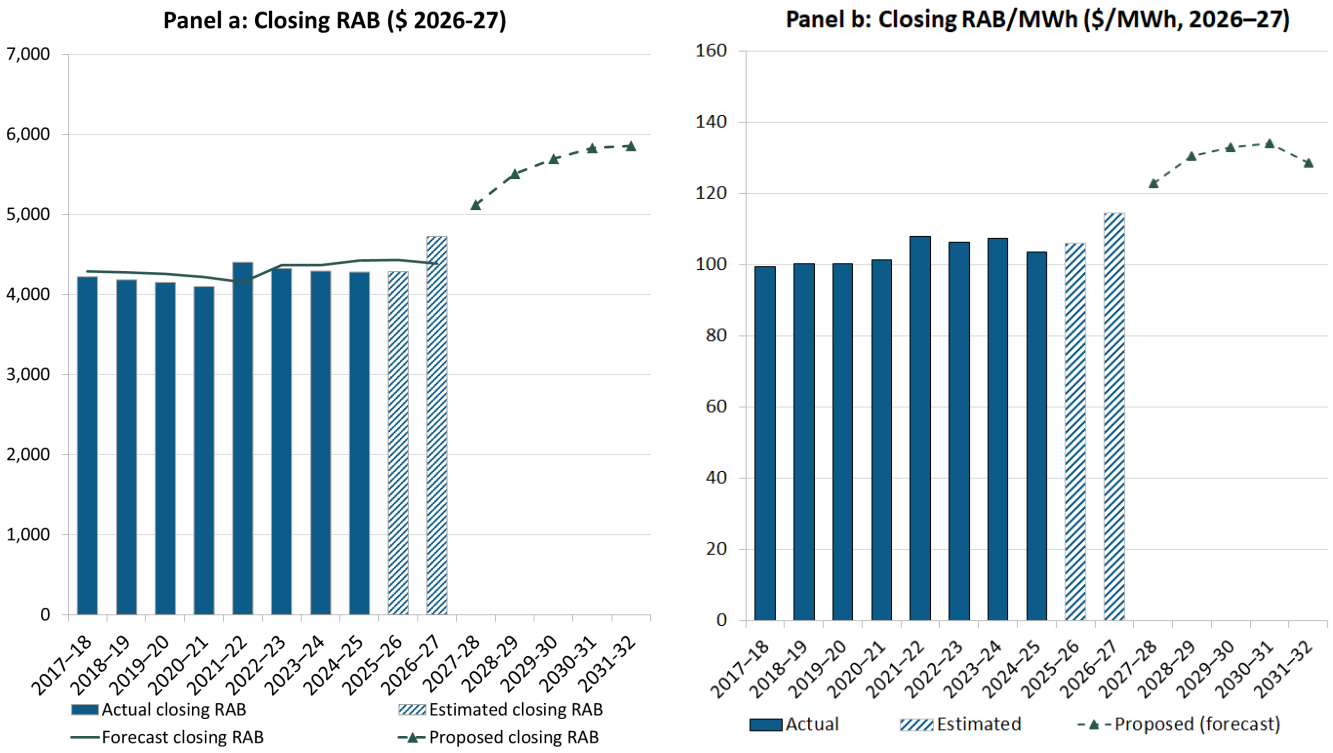
3.1.1 A closer look at the regulated asset base

The RAB is a key driver of a network business' revenue requirement. An increase in the RAB, all else equal, would increase the price consumers pay over the long-term (typically 50 – 60 years) because a regulated business is entitled to a return on the life of its assets.

We expect the RAB to change over time, as capital is invested to address the condition of assets and technology constraints, to provide new connections and to maintain reliability and safety requirements.

Figure 3 shows the value of AusNet's RAB over time in real terms (panel a), and its value per Megawatt hour (panel b). AusNet's RAB is forecast to increase substantially, and despite a forecast rise in energy throughput, the RAB per megawatt hour is also expected to increase. We consider efficient investment in, and efficient operation of the transmission network are important to minimise the required capex and the RAB.

Figure 3 AusNet's RAB value over time ($ million, 2026–27, unsmoothed)



Source: AER analysis.

3.2 What would this mean for electricity bills?

AusNet estimates the proposed revenue would result in network tariffs that are 6.6% higher ($nominal) on average over the 2027–32 period compared to 2026–27 levels.

AusNet's proposal states that its transmission charge typically accounts for 5% to 6% of residential and business electricity bills and estimates the impact of its proposed revenue on the average transmission network component of an annual electricity bill over the 2027–32 period would be:[11]

- an average of $8 higher per annum for a residential customer (4,000 kWh)
- an average of $21 higher per annum for small business customers (10,000 kWh).

The increase in forecast capex by AusNet is a key long-term driver of consumer bills. Like other regulated businesses, AusNet will earn a regulated rate of return on the value of the assets invested in this regulatory period over the next 50 to 60 years – depending on the life of the asset. AusNet also recovers the assets value over time through regulated depreciation. It is therefore important that AusNet's proposal reflects the most efficient and prudent approach to maintaining the safety and reliability of the network according to the preferences of its consumers.

Moreover, these bill impact estimates are sensitive to the forecast energy that will be delivered through AusNet's network over the 2027–32 period. This means that the risk of lower or higher tariffs[12] as a result of actual demand is ultimately borne by consumers. Growth in demand depends on factors such as economic and population growth, the pace of electrification and even the weather.

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11 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 196.

12 AusNet is responsible for the exit and entry connection charges, while VicGrid is responsible for setting the transmission use of system and common transmission service charges. These are recovered from network users including distribution businesses and other customers directly connected to the transmission system.

3.3 Preliminary issues

The discussion below presents the key preliminary issues emerging from our top-down review. We note that these issues are based on an initial assessment of the proposal and our views may change over time.

Our key issues are primarily around the assessment we will need to conduct to assess the prudent and efficient nature of AusNet's proposed expenditure program. We encourage stakeholder views on these key issues, as well as on the more detailed discussion at the component level in Section 5 - Key elements of the revenue proposal.

3.3.1 Asset condition and efficient replacement expenditure

A key driver of AusNet's proposed capital expenditure programs is the deteriorating condition of its aging high voltage 500kV assets, including transformers, switchgear and towers. AusNet has identified these assets as a primary reason for the material increase in its capital expenditure forecast for the 2027–32 regulatory control period, relative to the current period.

The proposed replacement programs are included within the major stations and replacement expenditure categories, which together account for 73% of the total forecast capital expenditure. AusNet's forecast for these categories has doubled compared to the current regulatory period.

In its proposal, AusNet stated that its asset replacement strategy is primarily condition-based and only addresses assets that present an unacceptable risk of failure, rather than relying on asset age alone. AusNet note that some of the major station projects are already in construction or committed.[13] For new proposed projects AusNet considers replacement where assessed risk exceeds the cost of replacement, even if they are old or deteriorated, unless non-replacement would result in a breach of safety or an environmental obligation.[14]

Keeping in mind that some of these projects are already committed, our review will be focused on the prudency and efficiency of the expenditure forecasts – including the consideration of assumptions that underpin the forecasts, such as higher labour and material costs. For AusNet's new proposed replacement programs, we will also consider the justification for the increase in forecast expenditure and the reasonableness of the options considered.

Questions on our preliminary issues

2) What are your views regarding AusNet's justification for its proposed increase in replacement expenditure?
3) Does AusNet's proposal demonstrate that the investments in the network would result in the lowest cost to consumers over the long term?

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13 Based on the RIT-T status for projects in Table 4–5 of AusNet's proposal, 18% of major station projects are underway. AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 87–88.

14 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 71.

3.3.2 Prudent replacement expenditure

AusNet is proposing a substantial increase in its capital investment program during the 2027–32 period. This is around 2.2 times the expenditure that it proposed to undertake in the current period. This coincides with significant transmission investments across the country in response to increased renewable energy and the electricity transformation and is occurring during an unprecedented demand for materials and skilled labour in Australia and abroad.

This raises the question of whether AusNet's capex program reflects the best course of action, considering the available alternatives. For example, can AusNet deliver its intended program in a highly competitive market with strong demands and long lead times for upskilling labour and acquiring materials?

AusNet has developed a deliverability strategy that it submits mitigates the risks and supports the deliverability of its capital program.[15] This strategy includes organisation wide governance controls.[16] In addition, AusNet has also considered its ability to defer investment beyond the 2027–32 period for new projects that are not already committed, and has also proposed a contingent project.[17]

We are seeking consumer views on whether AusNet has considered all avenues to ensure its capital program is prudent.

Question on our preliminary issues

4) In your view, has AusNet considered all avenues to ensure its capital program is prudent and deliverable?

3.3.3 Efficient operating expenditure

AusNet has forecast an opex requirement (excluding easement land tax) of $754.7 million ($2026–27). This is 21% higher than the total opex we approved in the current regulatory period, in real terms. This proposed increase in opex over the next regulatory period is despite AusNet's actual operating expenditure over the current period having been consistently below its allowance.

The increase in forecast opex is driven by AusNet's use of the estimated opex for 2025–26 as the base year of its forecast, which is significantly higher than expenditure in previous years. While the choice of base year is revenue neutral over the 2027–32 regulatory period because of its interaction with the efficiency benefit sharing scheme, we will nevertheless determine if it is efficient. AusNet claim that the choice of this base year is appropriate because it is the best reflection of current and future operating conditions under an updated organisational structure, which created a distinct regulated transmission line of business.

Our assessment will also focus on the Digital step change and category specific forecasts.

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15 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 116.

16 AusNet, *TRR 2027–32, Appendix 4G Deliverability Strategy*, 31 October 2025.

17 AusNet has proposed one contingent project, the Dederang Terminal Station transformer and circuit breaker replacement project ($44 million) as a means of addressing deliverability. See section 5.6 below.

Questions on our preliminary issues

5) Do you consider AusNet's opex forecast for the 2027–32 regulatory control period reasonably reflects the efficient costs of a prudent operator? Why?

3.3.4 Uncertainty mechanisms

AusNet is proposing a new nominated cost pass through to recover costs for undertaking augmentation works under the direction of VicGrid. AusNet previously operated under a similar arrangement for augmentation with AEMO, but this role has now been transferred to VicGrid. AusNet consider that the scale of augmentations that it could be directed to deliver by VicGrid could be much larger compared to previous periods, and while there are other mechanisms in place to recover efficient costs associated with augmentation, it is unsure if these mechanisms will continue to be appropriate.[18]

We would welcome stakeholder feedback on this nominated cost pass through to assist with our assessment in accordance with chapter 10 of the NER.

AusNet has also proposed one contingent project, the Dederang Terminal Station transformer and circuit breaker replacement project ($44 million, nominal). AusNet considered this project contingent based on the economic timing, safety, reliability and market impact risks relative to its replacement program.[19]

Question on our preliminary issues

6) Do you have any feedback on the new nominated cost pass through event or the Dederang Terminal Station contingent project?

[18] AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 190.

[19] AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 114–115.

4 Stakeholder engagement

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

Our framework for considering stakeholder engagement in network revenue determinations is set out in the Better Resets Handbook. Our expectations are principle based and focused on providing networks with broad guidance on conducting successful engagement. This includes guidance regarding how networks should engage with consumers. We expect networks to tailor their engagement to best suit the needs and circumstances of their consumers.

We expect networks to have clearly shown how their revenue proposal reflects the preferred outcomes of their consumers. In AusNet's case, as a transmission business, we accept that engagement is with a range of stakeholders including generation and distribution businesses, infrastructure delivery businesses, large users, other stakeholders affected by its decisions such as landholders and residential customers.

We also need to satisfy ourselves that a revenue proposal addresses the preferences of consumers in a manner that is prudent and efficient and that the programs for which AusNet is seeking to recover costs can be delivered in the timeframes proposed. Together, these considerations will ensure AusNet's customers are paying no more than necessary for safe, reliable and secure delivery of transmission services.

In preparing its revenue proposal, AusNet conducted a range of deep dives and workshops with its Transmission Stakeholder Advisory Panel and other relevant stakeholders. These workshops and deep dives covered a range of topics including opex, capex and capex deliverability, network resilience and risk allocation. AusNet also produced a draft proposal on 31 July 2025 and sought feedback.

AusNet submitted that the key outcomes or themes that AusNet's stakeholders have requested from the revenue proposal are for the transmission network to be: Efficient; reliable; resilient; safe; and ready.[20] The engagement with stakeholders has been thorough and diverse, and AusNet's Transmission Stakeholder Advisory Panel has had significant input into the development of the proposal.

We have engaged the consumer challenge panel, sub panel 34 to: provide advice on whether the long-term interests of consumers are being appropriately considered in the revenue proposal; and to provide an assessment of AusNet's consumer engagement, including the extent to which the proposal incorporates stakeholder feedback. For our draft decision, we will also consider submissions from stakeholders, including from AusNet's

[20] AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 43.

Transmission Stakeholder Advisory Board, regarding the effectiveness on AusNet's engagement and any outstanding issues that stakeholders would like the AER to investigate.

We note AusNet have outlined its plans for further engagement with stakeholders to help shape their revised proposal (due November 2026).[21]

Throughout this paper we have asked questions about AusNet's engagement on, and consumer and stakeholder support for, particular aspects of its proposal – particularly AusNet's capex program, and the overall bill impacts. At an overall level, we would value consumer and stakeholder perspectives on the questions below.

Questions on consumer engagement

7) Do you consider AusNet's revenue proposal reflects the outcomes consumers want at a reasonable cost? Why?
8) Are you satisfied with the way AusNet has engaged on the key areas of its revenue proposal, including its capital expenditure program? If not, why?

21 AusNet, *Transmission Revenue Reset Proposal 2027-2032 Overview Paper*, 31 October 2025, p. 22.

5 Key elements of the revenue proposal

AusNet's revenue proposal, and our assessment of it under the Law and Rules, are based on a maximum revenue cap form of regulation. The revenue cap is determined by applying a 'building block' approach which looks at five cost components (see Figure 4):

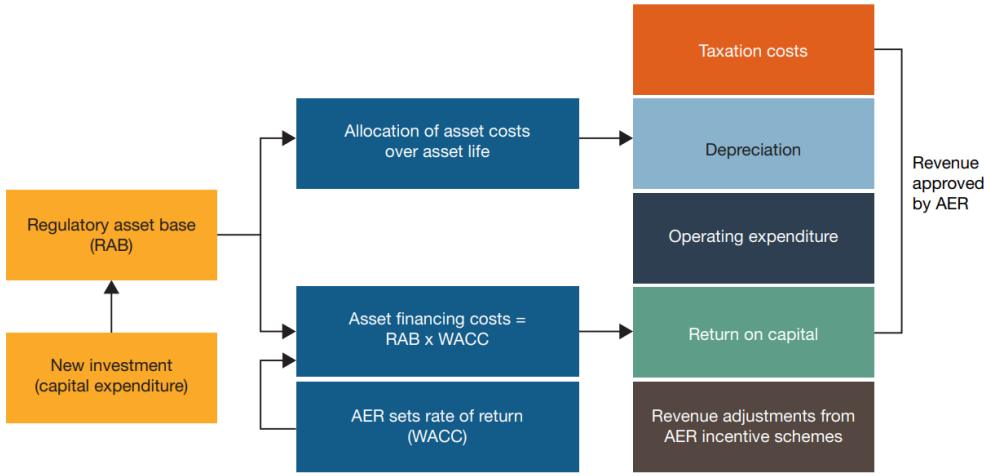
- return on the regulatory asset base (RAB) – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance 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 efficiency benefit sharing scheme (EBSS) for opex, capital expenditure sharing scheme (CESS) for capex, shared asset decrements and demand management innovation allowance mechanism (DMIAM) for research and development in demand management projects.
- estimated cost of corporate income tax.

Importantly, our decision on the maximum revenue does not limit an NSP's actual spending. We set the forecast at the level where the NSP has a reasonable opportunity to recover its efficient costs. An NSP may spend more or less than the total forecast amount specified in our decision in response to unanticipated expenditure needs or changes.

Our regulatory approach is an incentive-based framework. Our determination will include, as it has in the past, incentive-based mechanisms to encourage businesses to lower costs over time. A key component of our decision will be to assess the incentive mechanisms that underpin this determination (Section 6).

This section provides a summary of each of these components of AusNet's proposal, and our assessment of preliminary issues, if any. We include questions against each component to guide stakeholder feedback.

Figure 4 The building block model to forecast network revenue



Source: AER.

5.1 Regulatory asset base

A regulated network business is entitled to recover its initial investment (regulated depreciation) and to earn a regulated return on its asset base (return on capital). Therefore, the RAB is the key component in determining maximum revenue that AusNet is able to recover from customers.

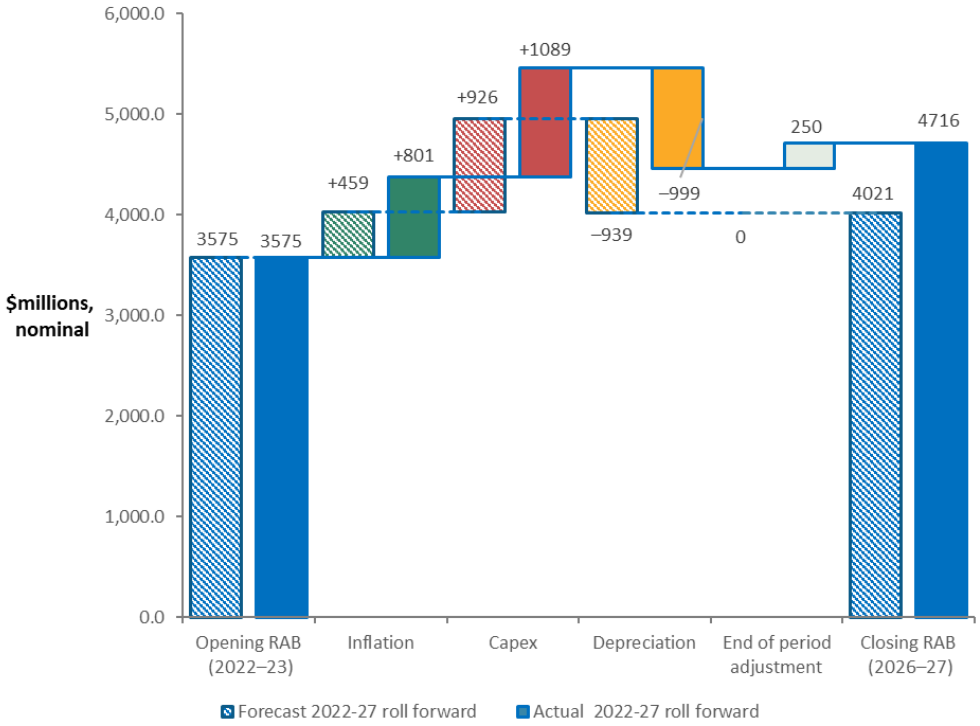
5.1.1 Estimated change in the RAB over the current period

It is important to assess how the RAB has changed over time to determine the opening value of the RAB for the first year of the next regulatory period (2027–28), and how it is expected to change in the future to the end of the next regulatory period (2031–32).

The opening RAB for 2027–28 depends on actual capex and inflation outcomes and depreciation. In nominal terms, AusNet has reported a $1,141.3 million (or 31.9%) increase in its RAB over the 2022–27 period. This is $694.9 million (17.3%) higher than the forecast value at the time of our 2022–27 determination.

As shown in Figure 5, the key drivers for this increase are a proposed roll-in of 'growth assets' as the end of the 2022–27 period, higher actual capex compared to the forecasts at the 2022–27 determination and higher inflation indexation on the RAB (due to actual inflation outcome being higher than the expected inflation at the 2022–27 determination).

Figure 5 Changes in the RAB over 2022–23 to 2026–27 ($ million, nominal)



Notes: a) This figure shows a comparison between the forecast closing RAB at the 2022–27 determination compared to the updated value reflecting actual/estimated capex for this period.

b) The end of period adjustment mostly reflects the roll-in of growth assets.

Source: AER analysis.

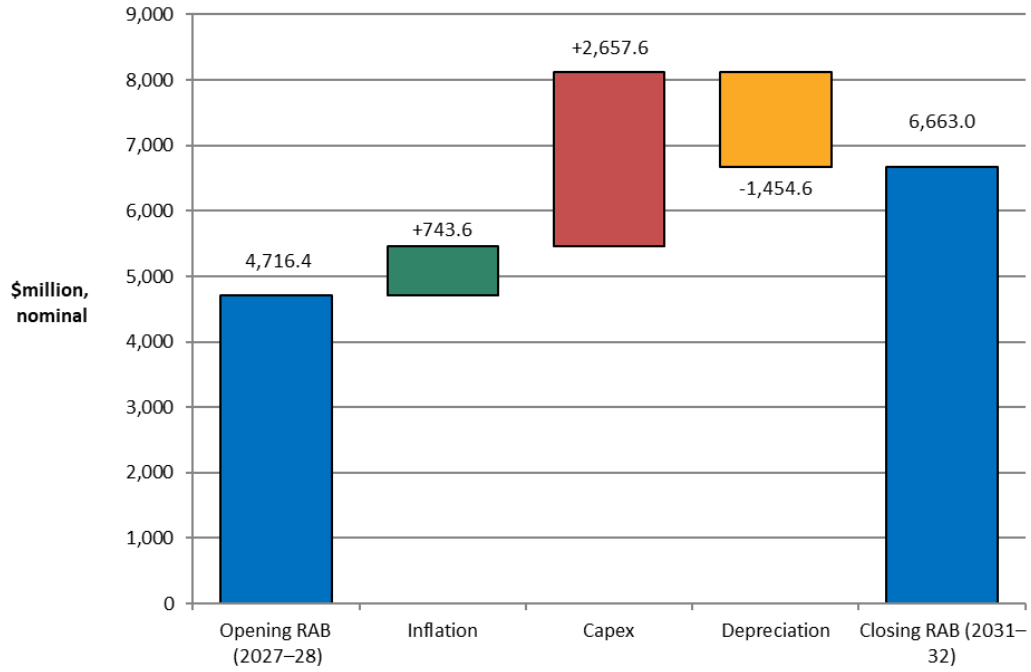
Growth assets are capital expenditure works conducted by AusNet to augment the network under the direction of AEMO (now VicGrid) or one of the Victorian Distribution Network

Service Providers (DNSPs). These works sit outside of AusNet's RAB and are governed by commercial contracts until the next revenue determination, when they are rolled in to the RAB if they satisfy the relevant criteria for inclusion in accordance with the NER.[22] AusNet has proposed to roll in $283.8 million of 'growth assets' into its RAB as at 1 April 2027.[23] We have accepted the inclusion of growth assets into the RAB in the previous regulatory control periods. We will assess the proposed growth asset roll-in amount, based on the approach we have taken in previous determinations.[24]

5.1.2 Forecast change in the RAB over the next period

As a starting value, AusNet applies the higher estimated opening RAB for 2027–28 to forecast its RAB over the 2027–32 period. Figure 6 shows that AusNet forecasts the RAB to increase by $1,946.6 million (or 41.3%) over the 2027–32 period, driven by both forecast new capex and to a lesser extent the inflation indexation adjustment. Depreciation, which AusNet recovers over the period, reduces the value of the RAB. Inflation, regulatory depreciation and capex are discussed in sections 5.2, 5.3 and 5.4 respectively.

Figure 6 Key drivers of the forecast increase in the RAB over the 2027–32 period ($ million, nominal)



Source: AER analysis.

22 The regulatory requirements for the roll-in of the 'growth assets' into the RAB are set out in NER 11.6.21(c).

23 AusNet stated that the proposed 'growth assets' amount reflects the actual depreciated value of these assets as at 1 April 2027.

24 We approved a roll-in amount of $291.5 million ($nominal) as at 1 April 2022 at the 2022–27 determination. In real terms, AusNet's proposed roll-in amount for growth assets is $76.5 million less than that of the 2022–27 determination.

5.2 Rate of return on capital and inflation

The AER's 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.[25] As we are currently reviewing the 2022 RORI and expect to make a 2026 RORI in December 2026, we expect to apply the 2026 RORI in our final decision for AusNet in January 2027.[26] AusNet has applied the 2022 RORI in its proposal and has accepted that the 2026 RORI will apply in our final decision.[27]

As noted in section 5.1, 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.

AusNet's proposal includes a higher estimate of the rate of return of 6.04% for the first year of the 2027–32 period, compared to 4.72% in our final decision for the first year of the 2022–27 period. The increase in the rate of return is driven by the rise in interest rates since the last decision.

AusNet's proposal also includes a higher expected inflation estimate of 2.62% for the 2027–32 period compared to the 2.45% estimate applied in our 2022–27 final decision.

The higher estimates of the rate of return and expected inflation are accountable for 26% of the increase in revenue AusNet has proposed relative to the current period.

At this stage, these values are placeholders only. It is important that they are updated throughout the determination process—in our draft decision, in the business's revised proposal and again in our final decision—for the latest market data.

5.3 Regulatory depreciation (return of capital)

Depreciation is the method used in our determinations to allocate the cost recovery of different types of network assets over their useful lives. 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.

AusNet has proposed regulatory depreciation of $654.6 million ($2026–27) for the 2027–32 period, which is $104.7 million (19.0%) higher than the 2022–27 period. The higher regulatory depreciation is primarily driven by higher straight-line depreciation, partially offset by higher expected inflation applied on a higher forecast RAB which increases the indexation of the RAB deducted from straight-line depreciation.

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25 AER – Rate of Return Instrument (Version 1.2) – March 2024.

26 https://www.aer.gov.au/industry/registers/resources/guidelines/rate-return-instrument-2026

27 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 172.

AusNet used our standard regulatory models and proposed to continue applying the year-by-year tracking approach in determining its forecast straight-line depreciation of existing assets. It has applied the same asset classes and standard asset lives from the 2022–27 regulatory determination.

We will assess AusNet's forecast capex program to ensure that the current asset lives remain appropriate for the nature of the new capex.

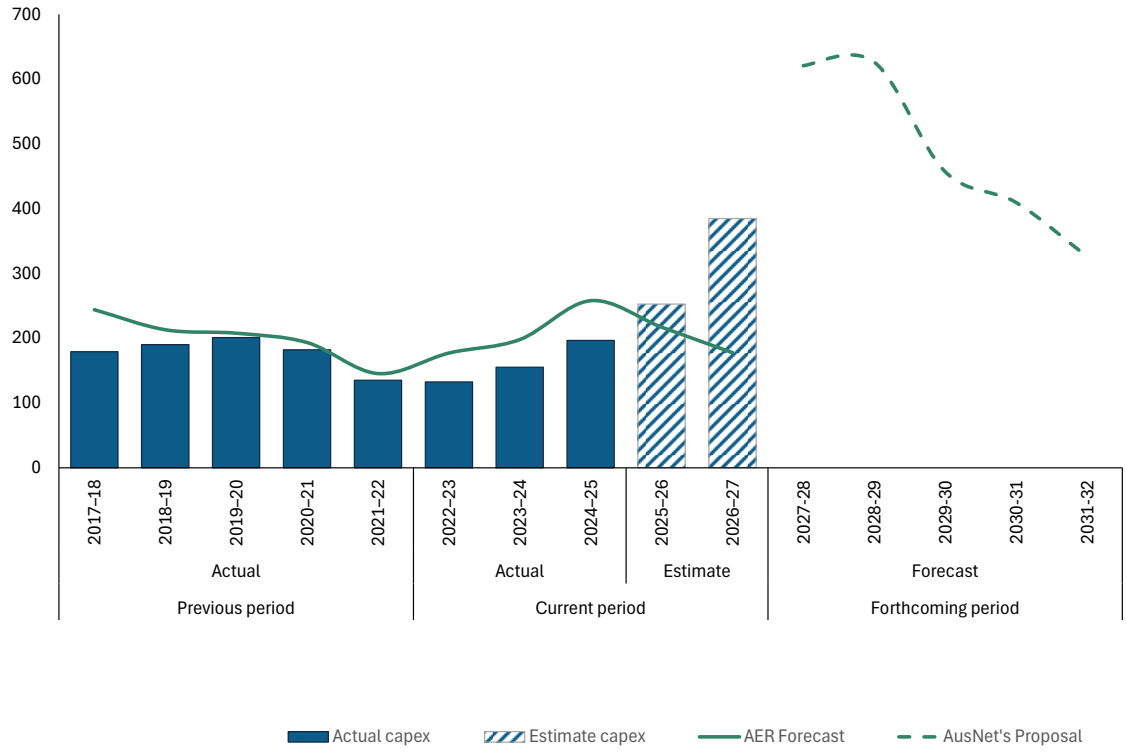
5.4 Capital expenditure

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

AusNet has proposed total forecast capex of $2,440 million ($2026–27) for the 2027–32 period. As shown in Figure 7:

- this is $1,413 million (138%) higher than the total forecast capex we approved (and used to set revenues) in our decision for the current, 2022–27 period.
- it is $1,318 million (117%) higher than AusNet's actual and estimated capex in the 2022–27 period.

Figure 7 AusNet's forecast and actual capex over time ($ million, 2026–27)



Source: AER analysis; RIN.
Note: Estimates only for 2025–26 and 2026–27.

AusNet expects to overspend its capex in the current 2022–27 regulatory period by $95 million or 9% compared to our forecast.[28] As shown in Figure 7, 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 2033–37 regulatory determination. We will assess whether an ex-post review is required in the next determination. AusNet state that its capex was greater than expected due to:[29]

- project delivery challenges during the period exacerbated by the COVID-19 pandemic
- labour and material cost increases due to market-driven cost pressures
- additional spend on energy management systems and cybersecurity not contemplated in the original allowance for the current period.

5.4.1 How we assess capex

The assessment techniques that we may adopt to assess AusNet's forecasts of total capex are outlined in our expenditure forecast assessment guideline.[30] We assess forecast capex proposals through a combination of top-down and bottom-up assessments. In undertaking a bottom-up assessment, we undertake a project level assessment of the need for the expenditure, and the efficiency of the proposed projects and related expenditure to meet any justified expenditure need. This is likely to include consideration of the timing, scope, scale and level of expenditure associated with proposed projects.

The Better Resets Handbook sets our expectations for capex forecasts. In summary:

- All components of the total capex forecast should be well-justified and consistent with past spending for recurrent components
- the business should show evidence of prudent and efficient decision-making on key projects/programs
- the business should provide evidence that the proposal aligns with industry risk management standards
- the business should provide evidence of genuine consumer engagement.

AusNet has proposed increases above current period spending across all capex categories (see Table 2 below). Based on our preliminary assessment, AusNet's supporting business cases are complex in nature and cover a range of drivers (such as a reliability, security and safety) that will require further assessment in order to satisfy ourselves that its forecast is guided by prudent and efficient decision making and risk management standards.

If we are satisfied the service provider's proposal reasonably reflects the capex criteria, we accept it. If we are not satisfied, the NER requires us to put in its place a substitute estimate

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28 AER Analysis; AusNet, *TTR 2027–32 Roll Forward Model*, 31 October 2025; AusNet, *TRR 2027–32 RIN Workbook 2 - Historical,* 31 October 2025; AusNet, *TRR 2027–32 Capital Expenditure Model*, 31 October 2025.

29 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 65–66.

which we are satisfied reasonably reflects the capex criteria taking into account the capex factors.[31]

5.4.2 Key drivers of AusNet's capex proposal

Table 2 sets out the composition of AusNet's capex proposal for 2027–32 and compares it to its forecast and actual expenditure in the current, 2022–27 period.

There are material increases in all capex categories. Major station projects and replacement expenditure provide the most significant contribution to the uplift, accounting for three quarters of the overall increase.

Table 2 AusNet's 2027–32 capex proposal compared to 2022–27 ($ million, 2026–27)

Category	AusNet's 2022–27 actual/estimate	AusNet's proposal	% change 2027–32 proposal vs 2022–27 actual/estimate	% over proposed gross capex
Replacement - Major Stations*	475.1	1,121.1	136.0%	46.0%
Replacement – Other*	368.4	655.0	77.8%	26.9%
Compliance and Resilience*	42.9	250.0	482.2%	10.2%
ICT capex	135.3	256.1	89.3%	10.5%
Non-network capex	41.3	73.8	78.7%	3.0%
Capitalised overheads	58.5	83.5	42.6%	3.4%
Gross Total	**1,121.6**	**2,439.5**	**117.5%**	**100.0%**
Less Disposals	2.8	2.5	-13.2%	
Net Total	**1,118.8**	**2,437.0**	**117.8%**	

Source: AER analysis; AusNet, *TRR 2027–32 Capital Expenditure Model*, 31 October 2025.

Note: The totals for Replacement – Major Stations, Replacement - Other, and Compliance and Resilience categories are estimated based on table 4-1 of AusNet's proposal. AusNet's figures supplied in its proposal included overheads; to exclude overheads, we have adjusted those totals proportional to the totals supplied by AusNet.

5.4.2.1 Major station projects

AusNet has proposed $1,121.1 million in major station projects, which represents 46.0% of total capex, and an increase of approximately 136.0% in comparison to the current regulatory period.

The proposal includes 16 projects across major stations to replace transformers, circuit breakers, reactors, switchgears, and gas-insulated lines. These include, for example:[32]

- South Morang terminal station – 500kV gas-insulated switchgear and transformer replacement ($264.3 million) and 330/220kV transformer replacement ($102.1 million)
- Keilor terminal station – 500/220kV transformer replacement ($226.2 million)

31 NER, cll. 6A.6.7(c), 6A.6.7(d), 6A.14.1(2)(i), 6A.14.1(2)(ii).

32 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 85–94.

- Newport station – 220kV gas-insulated switchgear replacement ($152.0 million)
- Loy Yang power station and Hazelwood terminal station – 500kV circuit breaker replacement ($65.6 million)
- Rowville terminal station – gas-insulated lines replacement ($60.9 million).

Twelve of the projects are new for the 2027–32 period, and 4 relate to projects already committed in the current period but are likely to incur further expenditure in the 2027–32 period.

AusNet states that this expenditure is driven by the need to replace crucial assets due to the deteriorating condition that pose unacceptable risks to key parts of the network if left unaddressed. The major stations repex program is focused on more complex 500kV systems, shifting expenditure away from 220kV assets. AusNet submits that the high costs are caused by material and labour cost increases that have not subsided since the COVID pandemic.[33]

5.4.2.2 Replacement expenditure

AusNet has proposed $655.0 million in asset replacement programs, which represents 26.9% of total capex, and an increase of approximately 77.8% in comparison to the current regulatory period.

Asset replacement expenditure is allocated to replacing transmission components in assets across AusNet's entire network, separate from the targeted replacement at the specific sites under the major station projects.

Cost categories and line items include lines and towers, protection & control systems, and communications equipment, and the need for replacement is driven by the condition of existing assets. AusNet's proposal includes:[34]

- tower replacement ($177.4 million)
- transmission line insulators ($158.0 million) and structures ($30.0 million)
- communication systems ($80.9 million)
- secondary systems ($36.9 million)
- low span rectifications ($22.6 million)[35]
- power transformers and oil-filled reactors ($21.8 million)
- transmission line conductors ($21.8 million)
- circuit breakers ($21.2 million)
- auxiliary power supplies ($18.8 million)

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33 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 67.

34 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 94–100.

35 This is separate from AusNet's proposed $107.3 million expenditure on low span remediation under the compliance and resilience category.

- meters ($18.3 million).

Other repex projects and programs total $47.4 million. This includes civil infrastructure, battery replacements, instruments and surge diverters.

AusNet states that this expenditure is primarily driven by faster-than-expected deterioration of some assets caused by external factors including extreme weather and increased corrosion for coastal assets.[36]

5.4.2.3 Compliance and resilience

AusNet has proposed $250.0 million on compliance and resilience, contributing 10.2% to their proposal's total capex and approximately 482.2% increase in comparison to the current period.

This covers expenditure related to compliance, safety, security, and resilience and includes items like asset hardening and security, fire protection, and environmental compliance. This category was formerly called 'safety, security, & compliance' in the current and previous regulatory control periods.

The compliance programs include:[37]

- low span remediation – comprising transmission line ground clearance management ($75.4 million) and transmission line conductors ($31.9 million)
- infrastructure security – including fencing, buildings, gates, CCTV and control rooms ($75.5 million)[38]
- transmission line conductors ($31.9 million)
- environmental ($22.8 million)
- structure fall arrests ($7.3 million)
- fire protection systems ($3.0 million).

This category also includes $34.0 million of proposed resilience expenditure for strengthening transmission towers compromised by extreme weather.

AusNet submits that these increased costs are driven by new programs and more extensive compliance obligations related to infrastructure security.[39]

5.4.2.4 ICT and digital infrastructure

AusNet has proposed $256.1 million on Information and communication technology (ICT) and digital infrastructure, which is 10.5% of its proposed total capex. This represents an 89.3% increase over the actual/estimated ICT expenditure for the current period.

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36 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 67.

37 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 100–106.

38 This includes Security of Critical Infrastructure (SOCI) Act related ($69.4 million) and non-SOCI related ($6.1 million).

39 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 100–101.

This expenditure is related to the ICT and digital devices, applications, systems, and infrastructure required to deliver electricity across the transmission network.

AusNet's ICT capex comprises seven programs:[40]

- advanced energy management systems ($81.4 million)
- cyber security ($60.8 million)
- digital resilience – applications ($37.2 million)
- digital resilience – infrastructure ($31.0 million)
- asset management and field enablement ($29.5 million)
- metering systems ($12.4 million)
- customer engagement ($3.9 million).

AusNet Services' ICT program is shared between its transmission, distribution, and gas businesses, with project costs allocated across the distribution and transmission components of the business. However, its transmission proposal includes capex on items solely related to transmission ($136.4 million), largely driven by the advanced energy management system and digital resilience programs.

As most of the proposed ICT expenditure is being assessed as part of our review for AusNet's 2026–31 distribution determination,[41] the focus of our review will be on the appropriateness of the additional transmission-specific expenditure.

5.4.2.5 Non-network capex

Non-network capex covers non-ICT expenditure on assets that support, but are not part of, the transmission network. AusNet has proposed $73.8 million on other non-network capex in the 2027–32 regulatory control period. This includes: property ($43.4 million); fleet ($12.1 million); and test equipment and tools ($18.4 million).

This represents 3% of its total proposed capex. The forecast reflects a 79% increase compared to the non-network expenditure for the current period.

AusNet's fleet proposal includes replacement of vehicles that are reaching, or have reached, end of life, along with additional vehicles to accommodate business growth. The property component includes the redevelopment of the South Morang Training Centre and renewal of AusNet's office facilities.

The property and fleet assets are shared across AusNet's distribution, transmission and gas businesses. This is also being assessed as part of our review for AusNet's 2026–31 distribution determination.[42] As this is being considered in AusNet's 2026–31 distribution

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40 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 106–110.

41 AER, *AusNet Draft decision, Distribution determination 2026–31 – Attachment 2; Capital expenditure*, *Section A.5*, September 2025, pp. 54–60.

42 AER, *AusNet Draft decision, Distribution determination 2026–31 – Attachment 2; Capital expenditure*, *Sections A.6 and A.7*, September 2025, pp. 61–65.

determination, the focus of our review will be on the appropriateness of the additional transmission-specific expenditure.

Questions on capex

9) Are there any particular areas of AusNet's capex proposal that you would expect further engagement on?
10) How do you consider that this proposal reflects stakeholder preferences?
11) Do you consider that the areas we have identified for greater assessment focus (major station projects and other replacement expenditure) are appropriate, and, if not, what other areas should be considered and why?
12) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed capex?

5.5 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. It includes labour costs and other non-capital costs that a prudent service provider is likely to require for the efficient operation of its network. Unlike capex, the total forecast opex approved for AusNet's 2027–32 period will be recovered within that one period. This means opex has a more immediate impact on revenue than capex.

AusNet proposed total forecast opex of $2,169.3 million ($2026–27)[43], including debt raising costs, for the 2027–32 regulatory control period.[44]

A significant portion of AusNet's total opex (65.2%) is attributed to easement land tax, a levy applied by the Victorian Government that is included in opex and recovered through regulated revenues. AusNet's easement land tax is included in the opex forecast as a category specific forecast, which excludes it for the purposes of calculating EBSS efficiency gains or losses.

AusNet's proposed total forecast opex, excluding easement land tax, of $754.7 million[45] for the 2027–32 regulatory control period is:

- $130.9 million (21.0%) higher than the total forecast opex we approved (and used to set revenues) in our decision for the current 2022–27 period.
- $173.0 million (29.7%) higher than AusNet's actual/estimated opex in the 2022–27 period.

We note that AusNet's forecast actual and estimated expenditure (excluding easement land tax) for the 2022–27 regulatory control period is also $42.2 million or 6.8% lower than the opex forecast we approved for this period.

43 All dollars in Section 5.5 are In $2026-27 terms unless otherwise stated.

44 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 121.

45 Includes Debt Raising Costs.

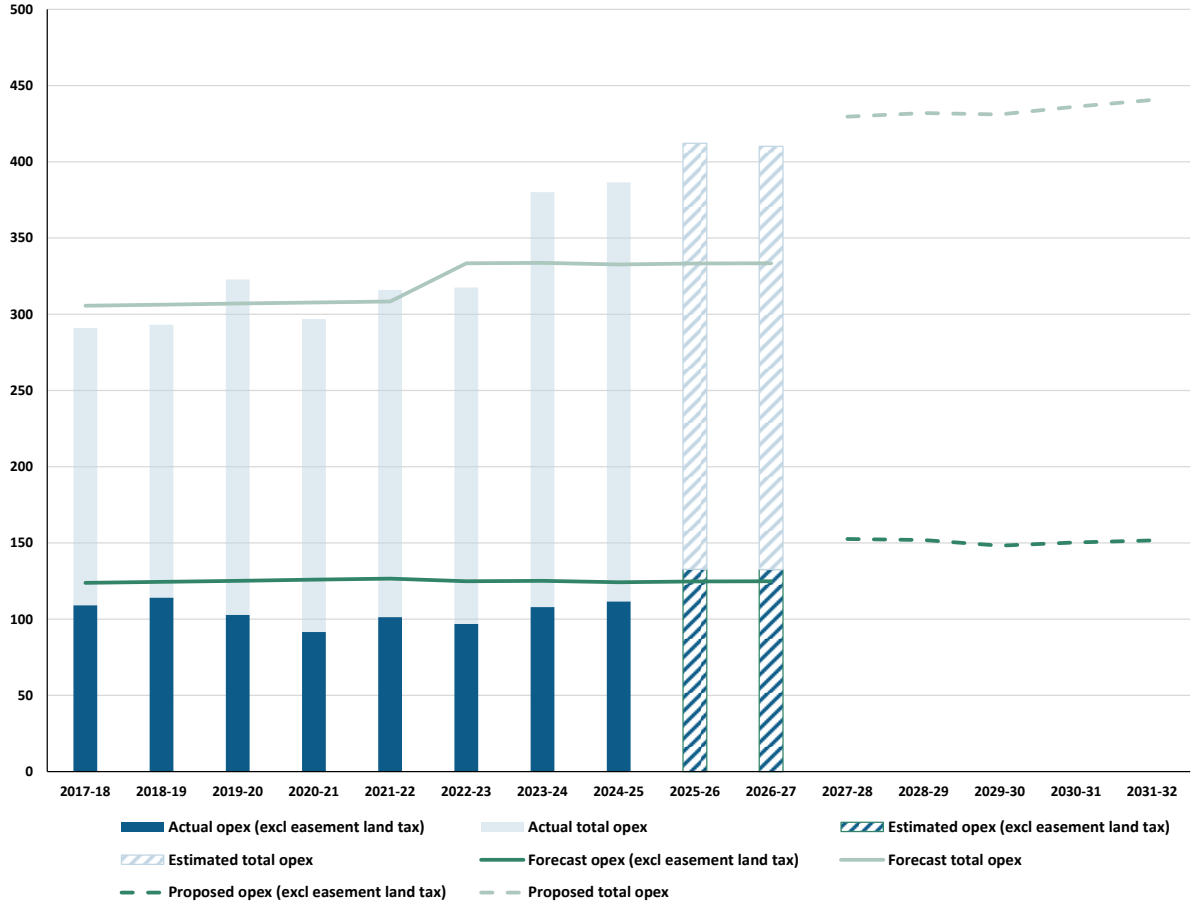
Table 3 AusNet's opex ($million, 2026–27)

	AusNet's 2027-32 proposal	Actual/estimated 2022-27	Forecast opex 2022-27
Total opex	2,169.3	1,906.4	1,666.5
Easement land tax	1,414,6	1,324.7	1,042.6
Total opex, excluding easement land tax	**754.7**	**581.7**	**623.8**

Source: AusNet, *TRR 2027-32 Operating Expenditure Model*, October 2025; AER analysis.

Figure 8 shows the trend in AusNet's total opex over time, both with and without the easement land tax. From 2017–18 to 2024–25 Ausnet's actual opex, excluding easement land tax (navy blue), has been consistently below the AER's approved opex forecast (solid dark green line). AusNet's expenditure, excluding land easement tax, in its proposed base year 2025–26 is estimated to be $8.0 million or 6.4% higher than forecast opex. It is also estimated to be $28.3 million or 27.1% higher than its average annual actual expenditure over the period 2017–25.

Figure 8 Comparison of AusNet's opex over time ($m, 2026–27)



Source: AusNet, *Economic benchmarking–Regulatory information notice response 2017–2024*; AusNet, *AusNet Services (ET) 2024-25 - Orders - Regulatory Templates*, August 2025, AER, *AusNet Services 2017-22 - Post tax revenue model - 2021-22 return on debt update, March 2020*; Ausnet, *AusNet Services - TRR 2027-32 Operating Expenditure Model*, November 2025; AER analysis
Note: includes debt raising costs

The Better Resets Handbook sets our expectations for opex forecasts, including that:

- the business will use our base-trend-step approach, including our standard assumptions
- the business will use a base year for which audited actual opex is available and that a network business can demonstrate that it is not materially inefficient
- step changes will be small in number and well-justified
- category specific costs will be small in number and well-justified
- there should be evidence of genuine consumer engagement.

Based on our initial assessment, AusNet's proposal adopts our base-trend-step approach.[46] AusNet used estimated 2025–26 opex as the base year, noting actual audited opex will be available for the final decision. AusNet states, it was appropriate to use 2025–26 as the base year as this is the best available reflection of current and future operating conditions. AusNet further states that 2025–26 is also the first full regulatory year that reflects AusNet's updated organisational structure which created a distinct Regulated Transmission line of business.[47]

AusNet has provided analysis, and notes the AER's 2024 Annual Transmission Benchmarking Report, to demonstrate their estimated base year operating expenditure (2025–26) is not materially inefficient.[48]

AusNet proposed 2 step changes totalling $68.3 million, representing 9.0% of total forecast opex (excluding easement land tax).[49] We consider this meets our expectation of few or no proposed step changes. However, given the materiality of the step changes, individually and collectively, we propose to prioritise assessment of both these step changes. Our assessment will focus on the prudency and efficiency of the proposed costs increases and holistically consider potential interactions with any related proposed capex. We will also test that the proposed additional expenditures are not already accounted for in the base year or trend forecast used to escalate base opex, and that AusNet has considered all opex factors and inputs in the proposed step change costs.

AusNet also proposed four category specific forecasts totalling $1,471.5 million, representing 67.8% of total forecast opex. These were for easement land tax ($1,414.6 million), AEMO participant fees ($22.0 million), Growth Assets Roll In ($22.0 million) and debt raising costs ($12.9 million).[50] We note, these category specific forecasts were all approved in AusNet's current regulatory period (2022–2027) forecast opex (allowance). Our review will focus on the AEMO participant fees and Growth Assets Roll In forecasts and consider if recovering these costs as category specific forecasts is still the most appropriate mechanism.

AusNet's proposal outlines how it has responded to and incorporated customer and stakeholder feedback received during its customer engagement program.[51] AusNet's

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46 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 123.

47 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 126-27.

48 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 128-29.

49 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 132.

50 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 137-38.

51 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 59-61.

engagement included discussions on the opex elements of base year, productivity factor and the Digital and Landholder engagement step changes.

Our Draft Decision assessment will prioritise review of AusNet's base year opex, Digital and Landholder engagement step changes and the category specific forecasts for AEMO participant fees and Growth Assets Roll In.

5.5.1 Key drivers of AusNet's opex proposal

AusNet used its estimated opex in 2025–26 as the base year for forecasting the 2027–32 period. It stated that it selected 2025–26 as this is the best available reflection of current and future operating conditions. AusNet's notes its revised proposal will be updated to reflect actual audited 2025–26 base year costs. Ausnet also noted that its most recent benchmarking results confirm the efficiency of its opex.[52]

AusNet then:[53]

- removed $29.4 million to reflect adjustments to base opex, for the removal of non-recurrent project implementation ICT costs.
- added $1.0 million to reflect the change in opex between the base year (2025–26) and final year (2026–27), using the approach outlined in the Expenditure Forecast Assessment Guideline.

applied a rate of change comprised of:

- forecast price growth averaging 0.6% per year ($14.1 million)
- forecast productivity growth of 0.52% per year (–$9.4 million)
- zero forecast output growth.

added 2 positive step changes totalling $68.3 million, or 9.0% of total forecast opex (excl land easement tax):

- Digital ($62.1 million)
- Landholder engagement ($6.2 million)

added category specific forecasts totalling $1,471.5 million, or 67.8% of total forecast opex, for:

- $12.9 million for debt raising costs
- $22.0 million for AEMO participant fees
- $22.0 million for Growth Assets Roll In
- $1,414.6 million for easement land tax

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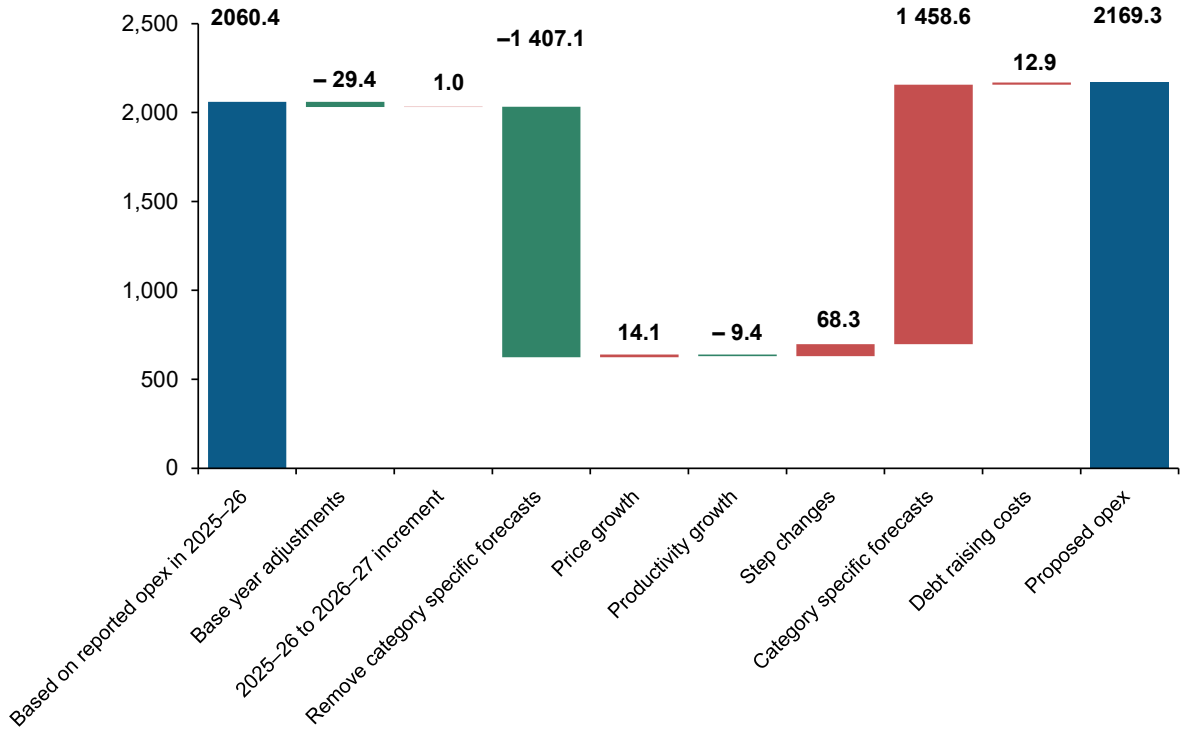
52 AER, *2024 – Annual Benchmarking Report – Electricity distribution network service providers, November 2024.*

53 AusNet, *TRR 2027-32 Operating Expenditure Model*, November 2025; AER analysis.

Figure 9 shows how the components discussed above are contributing to AusNet's proposed opex forecast.

Figure 9 Breakdown of AusNet's opex forecast ($m, 2026–27)



Source: AusNet Services, *TRR 2027-32 Operating Expenditure Model*, November 2025; AER analysis.

Questions on opex

13) Do you consider AusNet's opex forecast for the 2027–32 regulatory control period reasonably reflects the efficient costs of a prudent operator? Specifically, do you consider AusNet's proposed step changes are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?

14) What are your views regarding our prioritised review of the base year opex, step changes, the category specific forecasts for AEMO participant fees and the Growth Assets Roll?

15) Do you consider that AusNet's opex proposal, particularly the costs and benefits of the step changes, were sufficiently consulted on during the stakeholder engagement processes? Has Ausnet adequately addressed the themes and issues raised by stakeholders?

5.6 Corporate income tax

Corporate income tax is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM). AusNet's proposal includes an estimated cost of corporate income tax amount of $25.6 million ($2026–27) over the 2027–32 period: [54]

- It has proposed an immediately expensed capex amount of $83.5 million. This is consistent with AusNet's revised method to report immediately expensed capex, where they are partially as-incurred and partially as-commissioned in nature but are treated as as-commissioned adjustment in the PTRM for tax purposes.
- It has adopted the diminishing value method for tax depreciation to all forecast capex, except for a limited number of assets which must be depreciated using the straight-line depreciation method under the tax law.
- It has applied the same tax asset lives from the 2022–27 regulatory determination.

We will assess the appropriateness of the proposed capex allocated for straight-line depreciation for tax purposes, based on the approach we have taken in recent determinations.

5.7 Uncertainty mechanisms

Over the 2027–32 period there are mechanisms under the NER that may operate to increase or decrease charges faced by consumers. These include cost pass through events or contingent projects. The triggers set out for these events (either in the NER or in our determination) will, if met, allow AusNet to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment.

AusNet has proposed six nominated cost pass through events, in addition to the prescribed cost pass throughs as defined in the NER.[55] Of these, five were approved as part of our determination for the current period. AusNet notes it has made minor amendments to the definitions to align with recent AER determinations.

The new event AusNet is proposing is for directions from VicGrid that materially increase their costs of prescribed transmission services. AusNet states this relates to new powers conferred to VicGrid under the *National Electricity (Victoria) Amendment (VicGrid Stage 2 Reform) Act 2025* that comes into effect on 1 November 2025.[56] Our draft decision assessment will review the previously approved nominated cost throughs and amendments, and assess the new nominated cost pass through against the cost pass through considerations (as defined in chapter 10 of the NER).

AusNet has proposed one contingent project, the Dederang Terminal Station transformer and circuit breaker replacement project ($44 million, nominal). AusNet considered this project contingent based on the economic timing, safety, reliability and market impact risks relative to its replacement program.[57] AusNet is proposing that this project be triggered by the

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54 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 181.

55 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p 183.

56 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 190.

57 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 114–115.

AusNet Board commitment to proceed with the project, however, as noted by AusNet the project will need to be considered through the Regulatory Investment Test process.[58] The prudency and efficiency of the expenditure will be considered once the Regulatory Investment Test process is satisfactorily concluded, the project trigger(s) have been met and the contingent project application is submitted to the AER.

Question on uncertainty mechanisms

16) Do you have any feedback on the new nominated cost pass through event or the Dederang Terminal Station contingent project? (This question is the same as Q. 6)

[58] AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, pp. 116.

6 Incentive schemes and allowances to apply for 2027–32

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 its network. Incentive schemes that may apply to transmission network businesses include:

6.1 Opex Efficiency benefit sharing scheme (EBSS)

The Efficiency benefit sharing scheme (EBSS) provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between the business and network users. Our base-step-trend forecasting methodology for opex is closely linked to the EBSS. The constant incentive to reduce opex year on year gives us confidence that we can rely on a single base year of actual data for the purposes of forecasting future years. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.

We also exclude categories of costs, from the EBSS, that we do not forecast using a single year revealed cost forecasting approach in the following control period. We do this to share efficiency gains and losses. If we do not use a single year revealed cost forecasting approach, we may not pass the benefits of these revealed efficiency gains to consumers. It follows that consumers should not pay for EBSS rewards where they do not receive the benefits of a lower opex forecast.

In the current period, we excluded the following categories of opex not forecast using a single year revealed cost approach:[59]

- easement land tax
- AEMO participant fees
- AEMO's availability incentive scheme and priority projects approved under the network capability component of STPIS
- movements in provisions
- debt raising costs.

AusNet has proposed to include the same exclusions of opex categories from the EBSS for the 2027–32 regulatory period.[60]

While growth asset roll in opex was forecast on a category specific basis, we have not excluded it from the EBSS. This is because the opex related to the growth assets that will be

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59 AER, *Final decision – AusNet Services transmission 2022-37 – Attachment 8 – Efficiency benefit sharing scheme,* January 2022, pp. 8-9.

60 AusNet, *Transmission Revenue Reset 2027-32 Revenue Proposal*, 31 October 2025, p. 155.

rolled into the regulatory asset base at the start of the 2022–27 regulatory control period will be included in forecast total opex in the regulatory control period commencing in 2027–28. This ensures any efficiency gains or losses are passed on to consumers.

AusNet's proposal includes a $92.4 million ($2026–27) revenue decrease (negative carryover) under the EBSS, to share the efficiency gains derived from the application of the EBSS in the 2022–27 regulatory control period.[61]

6.2 Capital expenditure sharing scheme (CESS)

This incentivises AusNet to undertake 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. The CESS will apply in accordance with our current Capital Expenditure Incentive Guideline over the 2027–32 regulatory period.[62]

AusNet proposed a CESS revenue decrement of $34.5 million for the 2022–27 regulatory control period. This reflects an expected overspend to the AER's regulatory allowance.[63]

6.3 Service target performance incentive scheme (STPIS)

We create, administer and maintain the STPIS in accordance with the requirements of the NER. The purpose of the STPIS is to provide incentives to AusNet to provide greater transmission network reliability when network users place greatest value on reliability and improve and maintain the reliability of the elements of the transmission network most important to determining spot prices.

As discussed in our April 2025 Framework and Approach, we will apply version 6 of the STPIS to AusNet for the 2027–32 regulatory control period.[64] Version 6 of the STPIS came into effect on 17 April 2025.[65]

Under version 6 of the STPIS, the following 2 parameters will apply to AusNet:

- The service component (SC), which incentivises Transmission Network Service Providers (TNSPs) to reduce the frequency of unplanned outages and the time taken to return the network to service, and

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61 AusNet, *TRR 2027-32 RIN Workbook 3 – EBSS*, October 2025.

62 AER, *Final Framework and Approach, AusNet Services transmission determination 2027–32*, April 2025, p. 4; AusNet, *AusNet Transmission Revenue Reset 2027–32*, 31 October 2025, p. 156.

63 AusNet, *TRR 2027–32 RIN Workbook 4, CESS Model*, 31 October 2025.

64 AER, *Framework and Approach for AusNet Services transmission 2027–32*, April 2025, p5.

65 On 13 November 2025, the AEMC began consulting on a Rule change proposed by the AER entitled *Early application of a revised transmission Service Target Performance Incentive Scheme*. The Rule change request would allow the AER to reopen a TNSP's revenue determination for the purpose of applying version 6 of the STPIS before the end of a TNSP's regulatory control period. The AEMC has advised that any final rule is expected to be published in May 2026. This means the application of version 6 to AusNet Services is not expected to apply before 1 April 2027.

- The network capability component (NCC) which incentivises businesses to identify transmission network limits and increase capability by undertaking projects with a capital cost of less than the Regulatory Investment Test for Transmission (RIT-T) threshold (currently $8 million) and which are likely to result in a material benefit.

Version 6 includes the following changes to the SC and NCC (compared to version 5):

- We have amended the SC to remove rounding in setting targets for the loss of supply frequency parameter
- We have amended the NCC to no longer require TNSPs to submit a Network Capability Incentive Parameter Action Plan as part of their revenue proposal, but rather to require TNSPs to identify the projects in their Transmission Annual Planning Report that should be the subject of the NCC for our approval each year.

Under version 6 of the STPIS, the Market Impact Component (MIC)[66] (which applies in version 5 of the STPIS) has been suspended. As per our explanatory statement[67], we have undertaken a process to explore alternatives to the MIC through a working group comprising industry stakeholders and market bodies. Working group meetings have already commenced, and it is expected the working group will report its findings by mid-2026.

6.4 Demand management innovation allowance mechanism (DMIAM):

This funds AusNet for research and development in demand management projects that have the potential to reduce long-term network costs. Projects to be funded under the DMIAM must meet approval criteria, as set out in the DMIAM instrument. Any part of the allowance that is not spent on an approved project will be returned to consumers in the subsequent period.

In its proposal, AusNet supports the continued application of the DMIAM. In the current 2022-27 period, AusNet has claimed no project expenditure under the DMIAM.

Questions on incentive schemes

17) What, if any, are your concerns with the application of the CESS for AusNet in the 2027–32 regulatory control period?

18) Do you consider AusNet's proposed exclusions of opex categories from the EBSS for the 2027–32 regulatory period are reasonable? Please explain why.

19) Do you consider that the application of the DMIAM continues to deliver long term benefits to consumers? If not, why not?

66 The MIC incentivises TNSPs to minimise the financial impact of outages on the dispatch of generation

67 AER, *Transmission STPIS - Final Amendments: Explanatory Statement*, April 2025, p. 13.

7 Pricing methodology and negotiating framework

Our transmission determination for AusNet Services must specify a pricing methodology for its prescribed transmission services.[68] We must be satisfied that AusNet Services' proposed pricing methodology for the 2027–32 period gives effect to the pricing principles for prescribed transmission services. Its role is to answer the question 'who should pay how much'[69] in order for a transmission business to recover its costs.

In Victoria, AusNet Services is responsible for pricing prescribed connection services (entry and exit services), while VicGrid (previously AEMO) is responsible for setting prices for the other prescribed transmission services, including the prescribed Transmission Use of System services and common transmission services.[70]

AusNet Services' proposed pricing methodology does not make significant changes to the pricing methodology approved in the AER's 2022–27 final determination. The changes proposed include those to:

- Set out how new non-DNSP customers, including for load, generation and storage, are proposed to be treated for connection charges, including that:
    - storage assets (including batteries) will be treated as load when they connect at 66kV, which means they will be treated as exit service customers. AusNet noted that this would be a negotiated service[71]
    - the 365-day method or MDi10 approach (as agreed) will be applied to allocate total costs of exit services between all exit customers[72]
    - AusNet will subtract any negotiated charges from non-DNSP customers from any prescribed charges to DNSPs (in relation to multiple customers sharing exit services).[73]
- Reflect the transfer of authority of the Co-ordinating Network Service Provider (CNSP) and system strength service provider roles from AEMO to VicGrid.[74]
- Update the NER references where required (e.g. updates to aggregate annual revenue requirement allocation principles and definition of attributable cost share).[75]

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68 NER, cl. 6A.2.2(4)

69 AEMC, Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22, 21 December 2006, p. 1.

70 AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, p. 12.

71 AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, p. 11.

72 AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, pp. 11–12.

73 AusNet will recognise the shared cost allocated as a negotiated exit charge and annually subtract the amount from the maximum allowed revenue; AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, p. 12.

74 AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, p. 3.

75 Included NER clauses 6A.22.3(c), 6A.22.3(d) and 6A.22.3(e); NER clause 6A.22.3(d) replaced clause 6A.22.3(b) and NER clause 6A.22.3 replaced clause 6A.23.2(d); AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, pp. 6–7.

- Update for connection transformers that the costs are allocated to prescribed entry and exit services, previously it was prescribed entry services only.[76]
- Add a section on the recovery of system strength charges, noting that AusNet has no role in recovering system strength charges from transmission network users in Victoria.[77] This is consistent with the amended pricing methodology that was published on 31 January 2023 after the 2022–27 Determination.[78]

Questions on pricing methodology

20) Do you consider AusNet's proposed changes to its pricing methodology for the 2027–32 period are appropriate and that they give effect to the pricing principles for prescribed transmission services?

21) Do you have any views in relation to the proposed approach to treat new customers for connection charges?

22) More generally, do you have any comments on AusNet's proposed transmission pricing methodology for the 2027–32 period?

The provisions for negotiated transmission services in version 109 of the NER continues to apply in Victoria.[79] This means that in Victoria negotiated transmission services are subject to:

- A negotiating framework that sets out the procedures for negotiating terms and conditions of access to a negotiated transmission service. AusNet has submitted this as part of its proposal[80]; and
- A negotiating transmission service criteria[81] to be applied by AusNet in negotiating terms and conditions of access for any negotiated transmission services, which we develop and consult on in conjunction with AusNet's proposal.

AusNet's proposed negotiating framework for 2027–32 is similar to that approved for the current period. It has been updated for the transfer of functions from AEMO to VicGrid. Our proposed NTSC for AusNet was published with its proposal on 14 November 2025.

Question on negotiating framework

23) Do you have any comments on AusNet's proposed negotiating framework or our proposed negotiated transmission service criteria?

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76 AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, p. 8.

77 AusNet, *TRR 2027-32 Appendix 14A Proposed Pricing Methodology*, 31 Oct 2025, p. 13.

78 AER, *Final decision - AusNet Services transmission 2022–27, Amended Pricing methodology*, 31 January 2023, p. 14; https://www.aer.gov.au/documents/aer-final-decision-ausnet-services-transmission-2022-27-amended-pricing-methodology-31-january-2023.

79 By virtue of clause 11.98.8 of the NER.

80 AusNet, TRR 2027-32 Appendix 15A Negotiating Framework, 31 October 2025.

81 AER, Proposed negotiated transmission service criteria, November 2025.

Summary of questions

Questions on AusNet's role

1) Do you have any concerns about AusNet's proposal and its relationship with VicGrid's augmentation plans to develop the network outlined in the VTP?

Questions on our preliminary issues

2) What are your views regarding AusNet's justification for its proposed increase in replacement expenditure?
3) Does AusNet's proposal demonstrate that the investments in the network would result in the lowest cost to consumers over the long term?
4) In your view, has AusNet considered all avenues to ensure its capital program is prudent and deliverable?
5) Do you consider AusNet's opex forecast for the 2027–32 regulatory control period reasonably reflects the efficient costs of a prudent operator? Why?
6) Do you have any feedback on the new nominated cost pass through event or the Dederang Terminal Station contingent project?

Questions on consumer engagement

7) Do you consider AusNet's revenue proposal reflects the outcomes consumers want at a reasonable cost? Why?
8) Are you satisfied with the way AusNet has engaged on the key areas of its revenue proposal, including its capital expenditure program? If not, why not?

Questions on capex

9) Are there any particular areas of AusNet's capex proposal that you would expect further engagement on?
10) Do you consider that this proposal reflects stakeholder preferences?
11) Do you consider that the areas we have identified for greater assessment focus (major station projects and other replacement expenditure) are appropriate, and, if not, what other areas should be considered and why?
12) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed capex?

Questions on opex

13) Do you consider AusNet's opex forecast for the 2027–32 regulatory control period reasonably reflects the efficient costs of a prudent operator? Specifically, do you consider AusNet's proposed step changes are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?
14) What are your views regarding our prioritised review of the base year opex, step changes, category specific forecasts for AEMO participant fees and the growth assets roll in?
15) Do you consider that AusNet's opex proposal, particularly the costs and benefits of the step changes, were sufficiently consulted on during the stakeholder engagement

processes? Has Ausnet adequately addressed the themes and issues raised by stakeholders?

Question on uncertainty mechanisms

16) Do you have any feedback on the new nominated cost pass through event or the Dederang Terminal Station contingent project? (This question is the same as Q. 6)

Questions on incentive schemes

17) What, if any, are your concerns with the application of the CESS for AusNet in the 2027–32 regulatory control period?

18) Do you consider AusNet's proposed exclusions of opex categories from the EBSS for the 2027–32 regulatory period are reasonable? Please explain why.

19) Do you consider that the application of the DMIAM continues to deliver long term benefits to consumers? If not, why not?

Questions on pricing methodology

20) Do you consider AusNet's proposed changes to its pricing methodology for the 2027–32 period are appropriate and that they give effect to the pricing principles for prescribed transmission services?

21) Do you have any views in relation to the proposed approach to treat new customers for connection charges?

22) More generally, do you have any comments on AusNet's proposed transmission pricing methodology for the 2027–32 period?

Question on negotiating framework

23) Do you have any comments on AusNet's proposed negotiating framework or our proposed negotiated transmission service criteria?

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
CNSP	Co-ordinating Network Service Provider
DMIAM	Demand management innovation allowance mechanism
DNSP	Distribution Network Service Provider
EBSS	Efficiency benefit sharing scheme
ICT	Information and communication technology
ISP	Integrated System Plan
MIC	Market Impact Component
NCC	Network capability component
NEL or Law	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER or Rules	National Electricity Rules
NSP	Network Service Provider
NTSC	Negotiated Transmission Service Criteria
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
Repex	Replacement expenditure
RIT-T	Regulatory Investment Test for Transmission
RORI	Rate of Return Instrument
SC	Service component
STPIS	Service target performance incentive scheme
TNSP	Transmission Network Service Provider
TRR	Transmission Revenue Reset
TSAP	Transmission Stakeholder Advisory Panel
VTP	Victorian Transmission Plan