Coordination Group

Independent Report and Submission on Draft Decision and Revised Regulatory Proposal 2026 - 2031

Report for AusNet Services and Australian Energy Regulator

19 January 2026

Acknowledgement of Country

We acknowledge the Traditional Custodians of the lands on which AusNet owns and operates its electricity distribution networks and facilities, and where its customers, community and stakeholders work and reside. We honour the customs, history and traditions and special relationship of those Traditional Custodians with the land as well as the lands where this report is being prepared. We respect the Aboriginal communities who have cared for the lands for thousands of years and honour elders past and present. These include the lands of the Bidwell, Bun wurrung, Dauang wurrung, Gunai (Kurnai), Jaitmatang, Ngarigo, Nguraiilam wurrung, Taungurung and Yorta Yorta peoples.

Foreword

This report is written by the Coordination Group as a submission in response to both the Australian Energy Regulator's (AER) Draft Decision for the 2026–31 Electricity Distribution Price Review (EDPR) and AusNet's Revised Regulatory Proposal and lodged on 1 December 2025. This report follows our prior reports on AusNet's Draft Proposal and Regulatory Proposal.

This report, and our prior reports were developed after significant time and effort from the Coordination Group, other EDPR panel members and AusNet over a two-year period.

In its Regulatory Proposal, Revised Regulatory Proposal and / or during our engagement with AusNet the business noted a commitment to:

- be sincere and genuine in listening and responding to their customers' needs
- be held to account for any commitments they make
- engage broadly and deeply
- submit a revised proposal to the Australian Energy Regulator that reflects customer preferences.

AusNet's Revised Regulatory Proposal has evolved from the Regulatory Proposal based on the AER's Draft Decision and further engagement and feedback from our prior report.

Compared to the Regulatory Proposal, AusNet's Revised Regulatory Proposal has slightly lower capital and operating costs leading to marginally lower revenue and a commensurately lower set of proposed initiatives. As is the case across all electricity networks, there is a need to balance customer expectations sourced from the deep engagement, significant investments required to address the fundamental changes underway in the electricity system and a continued focus on the impact on electricity costs and customer affordability.

We acknowledge that the AER's Draft Decision highlighted a number of areas where AusNet's modelling fell short of the AER's and the AER sought further information from AusNet in its Revised Regulatory Proposal. This increased the workload for all parties in what was already a tight timeframe between the Draft Decision and lodging the Revised Regulatory Proposal.

In developing the Regulatory Proposal and Revised Regulatory Proposal we also note the extensive evidence of consumer needs and preferences through the extent and depth of AusNet's consumer research and engagement as a key input. We commend AusNet in their efforts as they sought address the expectations of the AER's Better Resets Handbook. However, the Draft Decision suggested that consumer needs and preferences shown through the extensive engagement have often had little influence. Consumers and networks would benefit from and are looking for more explicit AER guidance on the intended role of consumer engagement to maximise the value and benefit of consumers' input into the reset process.

I sincerely hope that this report and the articulation of consumer needs and preferences more broadly provides useful and practical insights and perspectives to inform and actually influence the AER's Final Determination on AusNet's 2026-31 Revised Regulatory Proposal.

Peter Eben
Independent Chair, Coordination Group
19 January 2026

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1 Executive Summary

The Coordination Group again commends AusNet on their extensive effort and sincere engagement in preparing their Revised Regulatory Proposal.

This report:

- is a formal submission from the Coordination Group in response to key aspects of the AER's Draft Decision on AusNet's Regulatory Proposal and AusNet's Revised Regulatory Proposal.
- contains our overall views of AusNet's engagement with its consumer panels to develop the Revised Regulatory Proposal and our perspectives of the way the AER's Draft Decision has accounted for customer views and preferences.
- is deliberately targeted to highlight priority items and within that context does not repeat information contained in the meeting summary report for the "All-in" forum in November 2025 that is Attachment D to AusNet's Revised Regulatory Proposal. We support the outcomes as noted in that summary report.
- does not intend to repeat matters already discussed and raised in our prior reports.

AusNet has proposed a total (smoothed) revenue requirement in $2025/26 real dollar terms of $4,562m over the 2026 – 2031 period, which is not materially different (a $57m or ~1 per cent reduction) from the Regulatory Proposal. However, it is a $484m or an approximately 12 per cent increase over the approved revenue in the current regulatory period (2021 – 2026).

The increased revenue compared to the current regulatory period is driven by changes in financing costs, forecast demand and significant increases in real capital expenditure ($1.2b or 57 per cent) compared with forecast expenditure in the current period and 98 per cent above the allowance for the current period. There is a slight reduction in proposed real operating expenditure ($11m or 1 per cent).

These capital expenditure changes are (largely to) fund a range of proposed initiatives designed to invest in and deliver stronger reliability and resilience (including for worst served customers), assist in unlocking renewable energy, support the energy transition to net zero and delivering improved customer experience in an environment of strong industry wide cost pressures.

Unfortunately AusNet's response to the AER's Draft Decision has been to reduce or remove a number of projects that had strong customer support even if they did not meet the AER capital expenditure criteria or had a positive Net Present Value (NPV), one such example was worst served feeders. This has led to the reasonable perception that the Revised Regulatory Proposal is of ''lower value'' to some customers than the Regulatory Proposal.

From a customer cost (affordability) perspective AusNet is forecasting real average customer prices between 2026 to 2031 to reduce (ranging from a 7 per cent real reduction for some residential segments to a 9 per cent real reduction for some business segments).

The average price impact is dependent on realising a material forecast increase in consumption, which spreads the increased revenue across a larger customer and consumption base. Without this rise in demand real prices could rise.

1.1 Coordination Group key perspectives

The Coordination Group and panels' key perspectives on AusNet's Revised Regulatory Proposal, the AER's Draft Decision and matters that may need to inform future regulatory reform include:

AusNet's Revised Regulatory Proposal

- A strong and continued appreciation of AusNet's sincerity, transparency, and huge effort in preparing the Revised Regulatory Proposal and in gathering evidence of consumer needs and preferences through its ambitious consumer research and engagement program.
- Commending AusNet's continued goodwill and effort in providing the Coordination Group and the panels with opportunities to inform and influence select aspects of their Revised Regulatory Proposal, which is consistent with the AER's Better Resets Handbook expectation of network businesses. However, the significantly limited timeframes between the AER's Draft Decision and AusNet's Revised Regulatory Proposal did restrict the opportunity for broad and deep engagement. The Coordination Group would like the AER to review the timeframe between publication of the Draft Decision and the deadline for submissions on that and the network Revised Regulatory Proposal for the development of future network resets to ensure appropriate engagement can be undertaken.
- Acknowledging that AusNet has done a good job overall of eliciting customer needs/ preferences for those Revised Regulatory Proposal components where it did engage. Those areas of the Revised Regulatory Proposal where AusNet engaged generally reflect the views and feedback expressed by the Coordination Group and panels as consumer representatives and therefore reflect consumer preferences. However please note our comments on consumer preferences influencing the AER's Draft Decision discussed below.
- AusNet's engagement program, whilst co-designed, ambitious and dynamic, did not and could not (necessarily) cover every matter or topic and some items that may have had a material impact on the Revised Regulatory Proposal were not consulted on with the Coordination Group and / or the panels for example capital expenditure risk allowances.
- Looking at the Revised Regulatory Proposal this report outlines a range of views on the proposed initiatives and expenditure into three categories:
  - Supported initiatives: There are initiatives that we believe reflect consumer preferences and should be approved by the AER in its final determination. Examples include worst served customers (inclusive of Euroa), noted aspects of the customer service-related operating expenditure and the innovation allowance.
  - Rejected (not supported) initiatives: There are initiatives we can not support as we believe either do not reflect consumer preferences or should be undertaken by AusNet without an explicit cost allowance and therefore should not approved by the AER in its final determination. An example includes the step change requested for sustainability reporting where we believe this could be funded from the base operating cost allowance.
  - Unsure initiatives: There are initiatives where we have caveats on our views, or had incomplete or insufficient information, engagement and / or time to provide a view and we believe the AER should make its own informed decision. In other words the AER should not use our caveats alone as a reason to not approve AusNet's request or to assume that the proposed initiative is not reflective of

customer preferences. An example includes the capital expenditure risk allowances.

- AusNet has put forward an ambitious and substantially increased capital expenditure program and we suggest that program deliverability needs to be considered by the AER. AusNet should also be held to account and monitored for their commitments and be required to report on progress. We note and support that AusNet has committed to such transparency and accountability.
- The forecast real reduction in customer bills is encouraging however:
  - they are dependent on the achievement of the uncertain forecast demand growth.
  - there has been no time to undertake explicit research and engagement on these updated forecasts. In particular the customer value vs cost trade off, i.e. do customers prefer the lower prices reflecting a reduction in the proposed initiatives or do they prefer higher prices but increased services and initiatives?

AER's Draft Decision on AusNet's Regulatory Proposal

- There were a number of areas rejected in the AER's Draft Decision where initiatives proposed by AusNet were supported by customers, i.e. reflective of customer preferences and needs. Clear examples of this include the significant reduction in the proposed reliability program (i.e. worst served feeders) and the Customer Service Incentive Scheme that despite clear customer support and rationale were both largely rejected by the AER. This approach:
  - appears to suggest the AER unilaterally prioritises 'prudency and efficiency' ahead of customer preferences in particular where a Net Present Value (NPV) analysis can be undertaken. In areas where an NPV analysis cannot be undertaken it seems the consumer preferences are still not necessarily the defining criteria with the AER at times looking to other factors to inform their decision.
  - is at odds with and seems to undermine the value of customer engagement and research.
  - requires the AER to better justify any such decisions with a clearer rationale of why their decision was made and how it is in the best interests of consumers notwithstanding their stated preferences. We would urge the AER to ensure that each specific area we have commented on in this report is explicitly considered and transparently discussed on how it influenced their final decision.
- The AER's Draft Decision highlighted a number of areas where AusNet's initial modelling required further work or analysis before it could potentially be approved. This increased the workload for all parties in what was already a tight timeframe between the Draft Decision and lodging the Revised Regulatory Proposal.

Areas to be considered in future regulatory change

- Our report highlights areas where regulatory reform may be required to improve the network reset process and outcomes for consumers. Some may be possible by the AER within the existing rules, others may require a change in the rules and hence be best addressed through the forthcoming Australian Energy Market Commission's Review (AEMC) review of electricity network regulation[1]: Examples include:
  - The role of consumer engagement when a project or initiative does not have a positive NPV.

[1] https://www.aemc.gov.au/news-centre/media-releases/aemc-undertake-critical-review-reconsider-role-electricity-networks-transition

- The limited time between the Draft Decision, the lodging of the Revised Regulatory Proposal and public submissions is unrealistic and too tight to allow meaningful engagement on matters raised by the AER and confirmation of consumer preferences.
- The role of distribution networks in facilitating the connection of utility scale renewables and storage assets. As we have seen in New South Wales (NSW) with the recent publication by the three networks of their Distribution System Plan[2].

[2] https://www.nsw-dsp.com.au/

2 Introduction

This report is written in response to the AER Draft Decision published on 30 September 2025 and AusNet's Revised Regulatory Proposal it lodged with the AER on 1 December 2025. It is designed to:

- provide the Coordination Group (and panels') independent views on AusNet's Revised Regulatory Proposal - the adequacy of engagement and whether the revised proposal appropriately reflects consumer preferences (based on evidence presented to us and that which the Coordination Group and panels independently obtained).
- provide Coordination Group's independent views on areas of the AER's Draft Decision to AusNet's Regulatory Proposal lodged on 31 January 2025.
- identify areas for further consideration by the AER in its final decision of AusNet's Revised Regulatory Proposal.

2.1 The Coordination Group

The Coordination Group is an independent group with an overarching governance and coordination role in AusNet's EDPR 2026-31 engagement program to work with a series of customer panels. The Coordination Group has an independent Chair and includes the lead from each of the six customer panels.

The members of the Coordination Group are:

- Peter Eben (Independent Chair)
- Helen Bartley (Research and Engagement panel lead)
- Kieran Donoghue (Availability panel lead)
- Gavin Dufty (Tariffs and Pricing panel lead)
- Mark Grenning (Benchmarking and Operating Expenditure panel lead)
- Dean Lombard (Future Networks panel lead)
- Emily Peel (Customer Experience panel lead)

2.2 Report structure

This report is structured with the following sections:

- **Section 1 (Executive Summary):** provides an overview of the Coordination Group's perspectives on the AER's Draft Decision and AusNet's Revised Regulatory Proposal.
- **Section 2 (Introduction**): provides an overview of the report's purpose and structure and the Coordination Group.
- **Section 3 (Customer engagement):** provides an overview and assessment of AusNet's customer research and engagement activities and the AER's Draft Decision.
- **Section 4 (Innovation and Incentive Schemes):** provides an overview and assessment of the innovation and incentive schemes components of the AER's Draft Decision and AusNet's Revised Regulatory Proposal. Noting that there is an overlap between these components and operating / capital expenditure.
- **Section 5 (Operating Expenditure):** provides an overview and assessment of the operating expenditure components of the Revised Regulatory Proposal and the AER's Draft Decision.
- **Section 6 (Capital Expenditure):** provides an overview and assessment of the capital expenditure components of the Revised Regulatory Proposal and the AER's Draft Decision.

3 Customer engagement

3.1 Background

In our Independent Report in May 2025 on AusNet's Regulatory Proposal[3], we commended AusNet for the sincere, transparent and collegiate relationship between the Coordination Group and with the business. We also expressed confidence that AusNet consistently welcomed our advice and challenge and has been responsive to our suggestions, information requests and challenge throughout the development of its proposal.

Our assessment at that time was based on a range of factors that we detailed in our earlier independent report, which in summary included:

- The co-designed structure and form of engagement which evolved into the current Coordination Group and panels, including a dedicated R&E panel
- Regular and purposeful meetings between AusNet and the Coordination Group and panels
- The collaborative working relationship between the panels and AusNet, with the R&E panel helping shape and influence broader EDPR-related customer research and engagement activities such as AusNet's multi-stage customer workshops, its Quantifying Customer Values (QCV) research and Resilience research and planning of deeper engagement with the other panels
- The funding provided to undertake work of our choice, provided it was related to and informed our advice to AusNet associated with its regulatory proposal as well as providing funding for the Coordination Group to prepare its independent reports
- AusNet's responsiveness to issues raised in our report on their Draft Proposal. For example, we expressed concern in our response to AusNet's Draft Proposal that AusNet had not adequately engaged on the overall affordability of its proposal for consumers (i.e. the bill impact). Consequently, this became an important theme for AusNet's fourth round of customer workshops to inform its Regulatory Proposal, although we questioned the consultant's conclusions.

While we broadly commended AusNet on its engagement and customers' broad support for AusNet's proposals, our report raised concerns about customers' unequivocal support for parts of AusNet's proposed expenditure and the impact on their bills.

The Coordination Group had only limited exposure to AusNet's technical analysis that informed the proposed expenditure presented at the consumer engagement sessions. Whilst we appreciate that proposed project/program specific expenditure is likely to change over the course of engagement as the network refines its proposal, in some cases, the dollar amounts varied materially between what was presented to customers and the Coordination Group and AusNet's proposals. The AER's Draft Decision significantly reduced AusNet's proposed expenditure as the AER considered it was not "in line with prudent and efficient decision making."[4]

The AER's Draft Decision highlighted various errors and inconsistencies in the engineering case that informed some of AusNet's capital expenditure proposals presented at the customer engagement sessions. While it is ultimately the AER's role to assess the prudency and efficiency of a network's regulatory proposal, any quantitative conclusions

[3] Coordination Group, *Independent Report on Regulatory Proposal 2026 – 2031*, Report for AusNet Services, 2 May 2025
[4] AER Draft Decision - Overview p. vii

(versus customers' in principle support) on customers' willingness to pay from AusNet's ambitious engagement program may have been compromised where the specific expenditure proposals presented had these errors and inconsistencies.

3.2 Comments on the AER's Draft Decision

3.2.1 General comments

The Better Resets Handbook outlines the AER's expectations for consumer engagement and makes it clear that proposals that reflect consumer needs and preferences and meet regulatory expectations on building blocks including capital expenditure (capex), operational expenditure (opex), depreciation, and tariff structures are more likely to be accepted. The Better Resets Handbook also emphasises the need for networks to engage broadly and deeply.

In its Draft Decision, the AER noted that its Consumer Challenge Panel observed that AusNet's consumer engagement met, and in many areas exceeded Better Resets Handbook expectations.[2]

While we welcome the increased network focus on consumer engagement in line with the AER's the Better Resets Handbook expectations, the Coordination Group is seeing confusion in consumers' and networks minds about importance or otherwise of the outcomes of good consumer engagement, when an expenditure proposal does not meet a cost benefit analysis test. This is apparent from the following two situations:

i. Expenditure that is strongly supported by consumer engagement, but the business case has a negative NPV/cost benefit ratio

For example, AusNet's proposed $23.7m expenditure on worst served feeders was strongly supported by consumers based on equity and fairness, but the proposed expenditure did not pass the AER's economic assessment. The AER rejected this expenditure in the Draft Decision as it was not prudent and efficient, with 8 out of 10 of the projects not having a positive NPV on the AER's modelling.[5] Given consumers consider equitable access to reliable energy to be very important, at the November 2025 forum participants encouraged AusNet to re-propose actions to address regional reliability issues. However, the revised proposal had only $1.8m for NPV positive projects.

Leaving aside the AER's issues with AusNet's modelling, are networks and consumers to conclude that regardless of strong customer support, if a specific project is not NPV positive applying the Capital Expenditure Guideline, then the AER will not approve the expenditure? Even in a case such as this, where customer preferences are explicitly not predicated on expecting the projects to be NPV positive.

ii. Expenditure that is strongly supported by consumer engagement, but it is not possible to perform a realistic cost benefit analysis

For example, we note the AER approved expenditure of $1.8m on emergency response vehicles. AusNet noted in its Regulatory Proposal:[6]

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[5] AER, *Draft decision AusNet Services electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 2 – Capital expenditure,* September 2025, p. 43

[6] AusNet Services, *Electricity Distribution Price Review 2026-31 Regulatory Proposal*, 31 January 2025, p. 193

> "ERVs provide an intangible benefit that is difficult to quantify…We have also considered the positive feedback that we recently received from our customers."

The AER considered this expenditure was consistent with amendments to the NER to explicitly include network resilience as an expenditure requirement for Victorian networks to develop Network Resilience Plans and actions stemming from the Victorian Network Outage Review.[7] We support the AER's Draft Decision on this matter.

However, consumers may reasonably ask why in the second example was expenditure approved; yet not in the first example. Both proposals contribute to providing a more reliable supply for areas of AusNet's network that suffer from poor reliability. We get some limited insight into the AER's approach in its Powercor Draft Decision:[8]

> ***"This is also the case with our Draft Decision on programs relating to regional reliability. We acknowledge the engagement Powercor has undertaken with its rural stakeholders in developing its regional and rural reliability and worst served feeder augex projects. Although this project was broadly supported by Powercor's stakeholders, community support is not the sole factor in determining whether a project is prudent and efficient. The driver of these projects is to improve reliability. However, in the absence of a regulatory obligation, we must assess the cost and benefits of these projects. In many cases Powercor has overestimated the benefits of these projects which results in negative net benefits for these projects. We note that where the NPV of these projects are marginally positive after accounting for the overstated benefits, we have included that capex in our alternative estimate where ordinarily in the absence of community support, would not be considered prudent and efficient."***

Does this mean that a network should only engage with consumers on NPV positive projects?

Coordination Group Perspective: *general comment*

We recommend that AER provide more explicit guidance in their Final Decision on how networks and consumers should engage (or not bother engaging) to follow the Better Reset Handbook.

3.2.2 Comments on the AER's view on AusNet's QCV research

The Coordination Group notes the AER has various criticisms with AusNet's Quantifying Customer Values (QCV) research methodology and AusNet's hybrid approach to calculating the value of reliability being inconsistent with the AER's Values of Customer Reliability (VCR) methodology.

Whilst we have concerns about AusNet's selective or hybrid application of the VCR results, we also take this opportunity to counter some of the AER's targeted criticisms of the QCV survey methodology.[4]

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[7] AER, *Draft decision AusNet Services electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 2 – Capital expenditure,* September 2025, p. 49

[8] AER, *Draft decision Powercor electricity distribution determination, 1 July 2026 – 30 June 2031, Overview*, September 2025, p.20

1. **Sample selection** - neither AusNet's QCV survey report nor the AER's VCR survey report discloses details of the sample selection where customers have been sourced by an online panel provider to demonstrate the samples are genuinely representative of the target population (e.g. residential customers in NEM /AusNet's network). However, AusNet has advised us that most of the QCV survey participants (2,800 of the 3,178 residential customers and 226 of the 349 business customers) are a random sample from AusNet's customer database; with the remainder selected from an online panel provider. In contrast we understand the entire VCR survey sample is sourced from online panel providers.

2. **Sample exclusions** - both surveys were only conducted in English, which automatically excludes groups in the population who may have different responses to the survey questions.

3. **Sample size** - we agree with the AER's suggestion that a large sample per se may not be more "robust" (as AusNet has described its sample). However, it is more important to have confidence that a sample is representative of the population of interest. Sampling theory dictates that a small well-designed sample survey with a high response rate is preferable to a large sample with a high non-response rate.

4. **Survey response rates and risk of bias** - neither the QCV nor the VCR survey reports include details of the survey response rates. Online surveys have notoriously low response rates and the lower the response rate the greater the risk of non-response bias (i.e. the risk that the characteristics of non-responders are not the same as the survey responders)

5. **Fit for purpose** - notwithstanding the above limitations that apply to both surveys, the QCV research is bespoke to AusNet customers and it provides more granular data for AusNet customers and other factors being equal should yield more statistically accurate results for AusNet customers than the VCR survey, of which AusNet customers are a subset.

6. **Evidence of VCR drivers** - the AER notes "the climate and remoteness are strong drivers for the VCR, meaning customers in the same climate segment are likely to share similar reliability preferences."[5] The AER has criticised AusNet for insufficient evidence that being an AusNet customer is a stronger driver for the VCR than climate zone and remoteness, yet the AER has not provided any evidence in its Draft Decision to support its contention. Ultimately, being a customer of a particular network is another stratification layer, and samples that are stratified have a smaller sampling error than random samples.

7. **Age of survey data** – the AER claims the QCV data is less relevant as it is older than the AER's most recent survey. While the survey date is another variable that can impact survey results, the AER offers no evidence other than a broad claim about the survey timing to support its reasoning that the QCV survey is less relevant than the AER's VCR.

Coordination Group Perspective: *general comment*

Ultimately, there is no evidence that one survey method is "more valid" than the other, but all other factors being equal the sample size in AusNet's QCV research provides data that that has a greater statistical accuracy overall for AusNet's customers. Indeed, the AER's own VCR results may improve if, alongside climate zone, the sample was stratified by network.

3.3 AusNet's additional engagement to inform its Revised Proposal

The short time between the AER publishing its Draft Decision on 30 September 2025 and AusNet lodging its revised proposal on 1 December 2025 unfortunately significantly limited AusNet's opportunity to engage broadly with customers. This necessitated focused engagement via a workshop with informed customer groups on key topics where customers had potential to influence AusNet's Revised Proposal.

AusNet met with the Coordination Group on 21 October 2025 when it presented an overview of the AER's Draft Decision and its intended response,[1] including its proposed post-lodgement engagement. At this meeting AusNet sought Coordination Group input into the workshop design, in particular priority topics for discussion and the format of an in-person workshop to gather participants' feedback.

The in-person workshop was held on 6 November 2025. All panel members, members of AusNet's Customer Consultative Committee and other stakeholders, including AER and CCP representatives were invited. The workshop began with AusNet presenting an overview of the AER's Draft Decision and AusNet's intended response, noting the short time frame available for AusNet to prepare its revised proposal and lodge it with the AER by 1 December 2025. AusNet presented six topics for discussion at the workshop, including:

- Connections tax threshold for data centres
- Capital Efficiency Sharing Scheme
- Reliability for worst-served customers
- Resilience (community hubs)
- Customer experience opex (communications and relationship managers)
- Digital expenditure and CSIS

Details are included in AusNet's revised proposal and Coordination Group comments on the outcomes are included in the relevant sections of this report.

In terms of the quality of engagement that did occur, we make the following comments here:

- A diverse group of twenty customer representatives attended the workshop and provided a range of views on the topics discussed. The group included 14 participants who were members of the AusNet's various EDPR panels and the Coordination Group, members of AusNet's Customer Consultative Committee and others9
- AusNet prepared a 55-page slide deck, which given the range of topics and available time was relatively high-level

[9] AusNet, *AusNet Electricity Distribution Price Review 2026-31 Revised Regulatory Proposal Monday, 1 December 2025, Appendix: ASD -All-In Workshop - December 2025*, p.1

- AusNet subject matter experts presented talked to their respective sections of the slide deck and were available to answer questions
- Participants engaged well on the topics - they questioned and challenged what they heard to form a reasonable view on the proposals beyond any personal interests
- Participants appreciated the AER's attendance at the workshop. Much of the early discussion centred on the AER's Draft Decision and the attendance of an AER representative meant many of the questions posed by participants could be directly answered.
- The Coordination Group supports the content of the summary report reflecting the discussion and decisions made at the 6 November 2025 workshop.

While the extent of customer support in relation to the content presented and AusNet has not been validated with a statistically valid representative sample of customers, the sentiment at the November workshop was broadly consistent with other evidence of customer preferences gathered from AusNet's broader engagement program.

Regardless, we appreciate that dollar amounts that informed AusNet's engagement are likely to change over time, for example due to inflation or as AusNet refines its modelling and develops its proposals. We also appreciate that at some point that AusNet needs to make assumptions about consumer preferences to finalise its proposals. However, in a time of rapid change in the energy sector and following the January 2026 bushfires and floods in AusNet's service region customers' willingness to pay may for different services may change.

Coordination Group Perspective: *general comment*

When making its final decision we encourage the AER to be cognisant of the evidence of consumer preferences gathered through a solid program of customer research and engagement. Clear reasons should be provided where the AER has rejected a proposal or initiative that had consumer support or reflected consumer preferences.

Coordination Group Perspective: *regulatory reform*

We recommend the AER to review the timeframe between publication of the Draft Decision and the deadline for submissions on that and the network Revised Regulatory Proposal for the development of future network resets to ensure appropriate engagement can be undertaken.

3.4 Overall view on AusNet's engagement

Overall, in line with the AER's Better Resets Handbook expectations AusNet engaged both broadly and deeply with customers, with the early stages providing meaningful insights into customers' needs and expectations. These insights that have helped inform the direction and focus for AusNet's proposals.

The Coordination Group is comfortable that in principle AusNet's proposal addresses those aspects of the service that are most important to customers, i.e. reliability and resilience. However affordability remains a key issue and may become more of an issue in the future as networks seek to recover the costs of the recent bushfires and floods through cost pass through applications. Consequently we are unable to make any explicit dollar conclusions about the amount customers are willing to pay.

Aside from these concerns as mentioned above, we are increasingly concerned about the AER's view on importance or otherwise good consumer engagement. Aspects of the Better Resets Handbook focus too much on engagement processes rather than emphasising the purpose and desired outcomes the AER is seeking to achieve from consumer engagement. We therefore encourage the AER to provide clearer guidance around its view on the purpose of engagement in regulatory decision making.

Coordination Group Perspective: *general comment*

Specifically, in relation to AusNet's Revised Regulatory Proposal, while we leave it to the AER to assess the prudency and efficiency of the proposal, consumer preferences must also be considered. Finally, we request the AER clearly explains how consumer preferences were considered in its determination. Clear reasons should be provided where the AER has rejected a proposal or initiative that was based on consumer support or reflected consumer preferences.

4 Innovation and incentive schemes

4.1 Background

For the current regulatory period, the AER approved a $7.5m innovation allowance for trial and pilot projects to test new ideas, concepts and technologies for suitability as business-as-usual activities meeting emerging needs. AusNet established an Innovation Advisory Committee (IAC) comprising key stakeholders (customer representatives, technical specialists, and other distribution networks) to give them an opportunity to influence the program and support transparency and knowledge sharing, and as a means of holding itself to account on the expenditure. AusNet committed to returning any unspent funds to its customers at the end of the period.

For the 2026–31 period, the Coordination Group and the IAC supported Ausnet's proposal for an expanded innovation program with a $17.5m allowance, subject to stakeholder engagement, governance, and project selection criteria and processes already established and subsequently refined, to build on the success of the existing program. This proposal was also on the basis that unspent funds would be returned to customers and included exclusion of the fund from the Capital Expenditure Sharing Scheme (CESS) and the Efficiency Benefit Sharing Scheme (EBSS) to support this outcome.

AusNet also proposed a revised Customer Service Incentive Scheme (CSIS) that retained some existing metrics (customer satisfaction with the way planned and unplanned outages and new connections are managed), dropped one (customer satisfaction with claims and complaints) and added a new measure – the proportion of customer issues resolved through a single contact.

4.2 Innovation allowance

4.2.1 Overarching perspectives

A strength of AusNet's existing innovation program has been its responsiveness to the IAC and flexibility to establish a new project, proposed by the IAC, to address issues emerging during the period. This highlights a key tension with including an innovation allowance in regulated revenue – balancing regulatory oversight and the assessment of prudence and efficiency in regulated expenditure with the nimbleness and responsiveness needed for an innovation program to both respond to emerging issues, and allow for stakeholder input in project selection, design and prioritisation.

A challenge has been the precision with which the net quantitative benefit to customers can be articulated. Projects are in the innovation program precisely because their viability is uncertain (albeit promising) and there is significantly more uncertainty about actual costs and realisable benefits due to the lack of precedents. The IAC and Coordination Group have supported the innovation program in the absence of quantitative net benefit calculations because of AusNet's commitment to transparency and accountability, the relatively minor cost impact of the program on customers, the support from AusNet customers and the clear value of the program overall.

4.2.2 Comments on the AER's Draft Decision

The AER's Draft Decision acknowledges the importance of innovation but stresses the importance of the criteria that projects must be:

- genuinely innovative – not a business-as-usual activity;
- justified by being linked to expenditure objectives;

- not eligible or suitable for other incentive schemes or allowances, regulatory sandboxing, or alternative funding opportunities;
- prudent with respect to scale as a trial or pilot, and with a clear pathway to business-as-usual implementation of successful; and
- supported by stakeholders.

On this basis, the AER approved two of the proposed seven projects – removing four for not being sufficiently innovative and one for being suitable for the Demand Management Innovation Allowance (DMIA) – contingent on evidence of the quantitative benefit of these two projects being provided. This constitutes a reduction in the amount of the Innovation Allowance from $17.8m as proposed by AusNet, to $6.5m.

Additionally, the AER did not support AusNet's proposal to exclude the Innovation Allowance from the Capital Expenditure Sharing Scheme (CESS) as a mechanism to return unspent Innovation funds to customers at the end of the period. The AER noted that category-specific exclusions from the CESS are not permitted, and that AusNet is free to voluntarily reduce its CESS award (or increase its CESS penalty) to achieve the same end.

The Coordination Group acknowledges the AER's rationale for its Draft Decision. We also appreciate the detail with which the AER articulated its assessment of the individual projects against the criteria. In particular:

- Noting that the projects were generally prudent, linked to expenditure objectives, and supported by stakeholders.
- Interrogating whether projects would be expected to be undertaken as a business-as-usual activity. This was a focus of the IAC and the detail in the draft determination will give further guidance to the IAC in making these judgements.
- Noting that quantitative net benefits are required for projects to be approved, even if there is considerable uncertainty

While the Draft Decision gives useful guidance for identifying and articulating projects suitable for innovation funding, the Coordination Group is cognisant of a larger issue: with the rapid change currently occurring in the energy system due to technological and social change and the emerging role of distribution network service providers (DNSPs) as a distribution system operator (DSO) managing bidirectional energy flows and growing distributed generation and storage, there is a growing demand for DNSPs to be more innovative and responsive in a diversity of ways. And the rapidity of this change sometimes means that projects that are innovative when initially proposed may not be so by the time they are ready to go (this was the reason funding was freed up for a new, IAC-proposed project during the current regulatory period).

We note that the AER has committed to developing "a standard innovation allowance (as percentage of Maximum Allowed Revenue) for all electricity network businesses with no ex-ante proposal and assessment required under a 'use it or lose it' funding arrangement."[10] The Coordination Group strongly support this commitment and recommends that when developing this the AER work closely with DNSPs and stakeholders to ensure there is clear guidance for DNSPs and their stakeholder advisory groups with regard to:

- determining that projects are truly innovative and not appropriate for BAU expenditure;

[10] https://www.finance.gov.au/sites/default/files/2025-08/DCCEEW%20-%20AER%20-%20Response%20letter%20-%20C%20Savage_Redacted.pdf

- undertaking cost–benefit assessments when there is considerable uncertainty as to project viability:
- building in sufficient flexibility for programs to be responsive to emerging issues during a regulatory period, including the capacity for DNSPs in conjunction with innovation advisory groups to generate new projects; and
- designing projects that are most able to be widely applicable to other DNSPs and jurisdictions, to maximise benefits.

4.2.3 Comments on AusNet's revised proposal

AusNet accepted the AER's Draft Decision and provided quantitative benefit assessments of the two approved projects as requested. AusNet also noted that due to the rapid rate of change in technologies, electricity usage and in the energy system as a whole, it is likely that priorities and needs will change during the 2026–31 period, and that the final set of projects delivered by June 2031 is likely to differ in some respects from those proposed now. Additionally, the IAC has emphasised the importance of the program being responsive to changing priorities and needs and stressed its own role as an advisor and collaborative partner in project prioritisation and selection – a role which has been supported by the Coordination Group and other stakeholders.

The Coordination Group supports this revised innovation proposal, noting that AusNet has made a clear commitment to innovation and that there are a number of other opportunities for funding for innovative trials and pilots. In particular, the Coordination Group commends AusNet's commitment to maintaining the necessary flexibility and responsiveness, and its support of the role of the IAC as a friendly critic and trusted advisory body.

Coordination Group Perspective: *Support*

We support AusNet's revised innovation proposal and commend AusNet's approach to governance and stakeholder engagement within its innovation program.

We recommend the AER proceed with developing a standard innovation allowance as soon as possible, ensuring that it engages closely with stakeholders who have worked with DNSPs on innovation programs to design it, and that the innovation allowance framework addresses the issues we have raised.

4.3 Customer Service Incentive Scheme

4.3.1 Overarching perspectives

A significant strength of AusNet's proposed CSIS for the 2026–31 period is its use of new measures based on the findings of **targeted customer engagement that identified what customers value from their electricity distribution network**. Challenges include the lack of historical measurement for the new measures (potentially making baselining more difficult), a delay in determining new targets for existing measures due to a change in information collection, and the need to ensure that there is a net value to customers after accounting for the revenue at risk and any investment needed to deliver improved performance. To address these challenges the Coordination Group supported the CSIS with the caveats that the metrics be sufficiently challenging and that customers don't pay twice – i.e. they don't fund both the CSIS and a significant increase in capital expenditure to meet CSIS targets.

4.3.2 Comments on the AER's Draft Decision

The AER did not accept AusNet's proposed CSIS due to the lack of baseline data and targets, the proposal to increase revenue at risk from 0.5 per cent to 1 per cent, and a concern that the outage-related metrics risked 'double-dipping' on rewards with the Service Target Performance Incentive Scheme (STPIS). It proposed applying the customer service (telephone answering) and new connections parameters of the STPIS as a substitute.

While the Coordination Group is comfortable with the AER's position on the size of the scheme (the proportion of revenue at risk), it considers the overall non-acceptance of the proposed scheme to be inconsistent with customers' expectations of customer service. This was confirmed in both the AER's public forum on its Draft Decision held in October 2025, and AusNet's stakeholder consultation workshop held in November 2025, where participants expressed significant concern about the Draft Decision as the metric is retrograde and not reflective of the values and expectations expressed by customers, nor the way that interactions between customers and their DNSP take place. The new CSIS was developed in conjunction with considerable customer engagement that was focused on what customers value from the business with regard to customer service. In particular:

- The STPIS telephone answering metric is an archaic measure that in the era of ubiquitous internet and instant text messaging no longer reflects the reality of how customers interact with their DNSP. The first contact resolution metric in AusNet's proposed 2026–31 CSIS applies regardless of mode of contact and measures what customers most value from a contact: a resolution of the issue.
- The STPIS outage parameters concern the frequency and duration of outages, but the proposed customer satisfaction measures concern the way the business informs and communicates with customers when outages occur. This is a fundamentally different issue and one that represents customer service rather than network performance and management.
- The AER's concern about the lack of targets is valid but seems to overlook AusNet's explanation for why targets were not articulated in the proposal (still in development) and its stated intention to include them in the revised proposal. The Coordination Group is also concerned that targets are appropriate and considers that a better response from the AER would have been to provisionally approve the CSIS contingent on targets being included (and with a rationale for how they are set), rather than rejecting it.

The Coordination Group appreciates the AER's concern about 'double dipping' but urges a nuanced approach that recognises the distinction between the customer service and network performance aspects of activities and puts the onus on the business to design metrics appropriately.

4.3.3 Comments on AusNet's revised proposal

AusNet accepted the reduction in revenue at risk to 0.5 per cent, and reproposed the scheme at that scale, providing targets for the proposed measures based on 11 months of data. It proposed an option to delay commencement of the new CSIS by a year to enable a more robust baseline. AusNet also articulated why it did not consider the measures to overlap with the related STPIS measures for outages and new connections.

The Coordination Group strongly urged AusNet to repropose the scheme with adjustments to respond to the AER's concerns where possible and supports AusNet's revised CSIS proposal. Customer service is a priority area for many customers and customers have expressed considerable support for the scheme. The Coordination Group

shares the AER's concern with targets being appropriately set and supports a delayed start to the new CSIS if needed to provide sufficient baselining for appropriate targets.

The Coordination Group notes the AER's concern that "customer service incentive schemes are becoming increasingly homogenised." This is not surprising, as different networks face similar customer service challenges; and while there are differences in customer characteristics between networks, there are considerable similarities in the reasons customers interact directly with their DNSP. The CSIS is still a new incentive scheme, and we urge the AER allow time to work with DNSPs and their customers and stakeholders to evolve and refine the way the scheme works in order to full respond to the very clear expression from customers of the value they place on customer service. In this context, we also can't emphasise enough the difference between network service performance and customer service experience. A promptly answered phone call that doesn't resolve the customer's problem may be a worse customer service experience than a delayed response to an inquiry that leads directly to a resolution.

Coordination Group Perspective: *Support*

We support AusNet's revised CSIS proposal, including the proposal to delay commencement by a year if needed to satisfy the AER's desire for a more robust baseline.

We recommend the AER approve this program in its final decision.

We do not support the AER's proposed substitution of two STPIS parameters for the proposed CSIS.

5 Operating expenditure

5.1 Background

Operating expenditure (opex) is a key component of the overall revenue requirements making up 35.6 per cent of the total nominal revenue AusNet is seeking in its revised proposal[11]. It is what is referred to as 'fast money' in that the network gets an immediate return of what it is spent – costs flow immediately into prices. This is in contrast to capital expenditure where the network gets a return on (Weighted Average Cost of Capital or WACC) and a return of (depreciation) capital over the life of the asset which could vary from 5 to 40 years - 'slow money'.

This is why the 'efficiency' and 'productivity' of operating expenditure is so important.

Our focus here in commenting on the Draft Decision and Revised Regulatory Proposal are step changes and productivity where consumer engagement may have some impact.

5.2 AER's draft decision

The AER's alternative forecast is $1,489m, 11.6 per cent below the proposed $1,684m.

While the AER accepted the base year, the trend forecast is lower reflecting a lower demand forecast. The step charge alternative estimate was -$40.2m compared to AusNet's proposal for $131.7m (7.7 per cent of proposed opex). This reduction was driven by a negative step change of -$58.1m for insurance where AusNet proposed a positive step change of $10.5m.

A major consideration in the AER's step change decisions was their view that many proposed step changes were either not 'material' or not prudent and efficient. This resulted in a reduction of a total of $41.4m in allowed step changes. While there is no formal standard for 'material', the AER seems to imply that it is > 1 per cent of opex. The AER concluded that (Attachment 3 pp.16-17):

> ***"We consider most of these step changes do not meet the requirements of our step change criteria and therefore do not satisfy the opex criteria."***

as set out in the Better Resets Handbook[12]. The AER sees the trend component of the 'base, step trend' opex methodology as providing scope for networks to fund 'non material' step changes.

Given the Coordination Group's focus on step changes where AusNet undertook consumer engagement:

- the $15.7m step change for customer engagement and communications programs, that was the subject of extensive consumer engagement, was rejected. The AER argued that it did not meet the step change criteria being more of a discretionary expansion of existing business as usual activities. The AER noted that over the 2016-20 regulatory period AusNet implemented a major cost reduction program in customer service related areas and argued that the proposed cost should be covered by base year opex.

[11] See Table 4-1 p. 47 Revised Regulatory Proposal
[12] See p. 26 https://www.aer.gov.au/industry/registers/resources/guidelines/better-resets-handbook-towards-consumer-centric-network-proposals

- The $15m step change for hazard tree removal was rejected because of the lack of evidence provided on the avoided capital expenditure (capex) given it was presented as an opex/capex trade-off.

The AER applied the standard 0.5% average productivity factor proposed by AusNet.

5.3 AusNet's revised proposal

Table 5.1 below summarises AusNet's revised proposal (excluding debt raising costs) over the current and forecast reset periods.

Table 5.1: Operating expenditure summary 2021-2026 to 2026-2031, $m (2025/2026)

2021 – 2026			2026 – 2031						
			Regulatory Proposal			Revised Regulatory Proposal			
AER allowance	Actual / Forecast	% chg. vs allowance	Proposal Request	%chg. vs 2021-2026 allowance	%chg. vs 2021-2026 Actual / Forecast	Proposal Request	%chg. vs 2021-2026 allowance	%chg. vs 2021-2026 Actual / Forecast	% chg. vs 2021-2026 Reg Proposal
$1,617	$1,485	-8%	$1,684	+4%	+13%	$1,606	-1%	+8%	-5%

On step changes AusNet's revised proposal:

- accepts the draft decision for some, submitted lower revised forecasts for others, proposed new ones and changed one - customer engagement and communications programs – to a category specific forecast
- proposes a total of $57m for step changes or 4% of total opex
- drawing on a report from HoustonKemp, argues that the AER's approach to the materiality is not supported by the AER Guideline which only refers to whether it is 'exceptional', does not mention materiality and is non-binding. Hence there is no legal basis in the NER for the AER to apply a materiality test
- notes that where a step change resulting from consumer engagement is rejected by the AER, the function will not be carried out, even where the cost is relatively low[13]:

  "These initiatives cannot continue without explicit resourcing, and if they are not funded, they cannot proceed"

- argues against the insurance decision (which was similar to that made for all other Victorian DNSPs) and provides a KC opinion to support its position

AusNet accepts the AER's standard 0.5 per cent annual opex productivity factor.

5.4 Comments on the Draft Decision and AusNet's revised proposal

We comment on the 'materiality' issue, a step change where AusNet has provided additional justification (hazard trees), a new step change (sustainability reporting) and the previous customer engagement and communications step change that is now a category specific forecast. We conclude with some brief comments on AusNet's falling productivity.

[13] AusNet, Electricity Distribution Price Review 2026-31 Revised Regulatory Proposal, December 2025, p185

5.4.1 Step changes and materiality

In our submission on the Regulatory Proposal we noted the unusually large number of step changes (11) with a focus on those that resulted from AusNet responding to customer issues raised during engagement. Our comments were qualitative leaving the assessment of prudency and efficiency to the AER. Consumers have strongly supported the Better Reset's Handbook approach of encouraging fewer step changes on the basis of its affordability benefits.

HoustonKemp's analysis[14] supporting AusNet's position seeks to argue that 11 is not unusual in recent proposals, though there has been a wide range in recent distribution network proposals e.g. one (1) each for Energex and Ergon in 2025-30 and seven (7) for Powercor, United and Jemena and five (5) for CitiPower in the current Victorian DNSP cycle. Their main argument is that the calculation of the trend component via historical BAU benchmarked costs does not fully represent the forward looking costs the network will need to spend as operating complexity increases and hence the trend component is not sufficient to cover the step changes required to operate in the future.

Thus, while step changes for new obligations that are ruled out on the grounds of materiality will proceed anyway, as AusNet will need to be compliant, step changes for non-regulatory drivers that are ruled out on the grounds of immateriality will not, despite their relatively low cost.

Coordination Group Perspective: *general comment*

We recommend that in the final decision the AER provide more clarity on its interpretation of 'material' - how is it defined, how that definition is applied and how it sees the trend component covering the cost of step changes.

5.4.2 Hazard tree analysis step change

In our submission on the initial proposal we argued that AusNet had not provided sufficient analysis to justify the proposed expenditure as an efficient opex/capex trade-off. In the Draft Decision the AER said that the step change could not be justified as a capex to opex trade-off because there was insufficient detail on the avoided capex.

The Revised Proposal provides a Resilience Explanation Document[15] that provides limited detail with a number of commercial in confidence redactions. AusNet's analysis concluded that $6.2m of hazard tree opex (on top of BAU) is the optimal level of opex expenditure based on climate change projections and it reduced network hardening investment by $45.6m[16]. Any additional opex expenditure is NPV negative. We were unable to review this in any more detail given the confidentiality.

Coordination Group Perspective: *general comment*

While we are supportive of the principle of an efficient opex/capex trade-off, we do not have the time or the information to robustly assess whether this step change and the relevant capex combined represent the lowest cost solution.

[14] One of the documents in the folder https://www.aer.gov.au/documents/supporting-documents-opex

[15] https://www.aer.gov.au/documents/asd-ausnet-resilience-network-hardening-and-hazard-trees-explanation-document-december-2025

[16] Not $40.6m as shown on p.136

5.4.3 Sustainability reporting under the Corporations Act

This is a new step change. The amount sought is $2.4m and may come within the materiality discussion. We note that AusNet has not applied for this as a step change in its 2027-32 proposal for its transmission network. Nor have the other Victorian DNSPs in their revised proposals[17].

Coordination Group Perspective: *reject*

We have not been engaged on this specific item, and thus we cannot support it. The AER should only allow this expenditure if it is confident this represents a material change and the proposed amount represents the prudent and efficient cost of meeting these requirements.

5.4.4 Category specific forecasts

The original proposal for a $15.7m step change for customer engagement and communications is now a $9.8m category specific forecast (note it says $10.3m at the bottom of p.197) so the cost is not embedded into the ongoing base opex and is subject to ongoing review which is a welcome commitment.

This measure had generally strong support during consumer engagement. The 6 November 2025 forum provided some support for it continuing under a narrower scope with AusNet providing more detailed information in the Revised Proposal than was provided during the forum. AusNet's revised proposal contains seven pages of detailed justification for the revised scope. We focus on the two parts of the revised proposal.

The first part of $2.4m is (p.203):

> ***"…focussed on communication campaigns designed to influence customer behaviour in response to price signals. The intent is to deliver tangible benefits such as deferring network augmentation by reducing peak demand and unlocking greater PV exports."***

We support the idea of consumers being made aware of different tariffs e.g. solar soaker, designed to improve network utilisation. However, we face an evolving political and regulatory environment on tariffs arising from:

- The Commonwealth is instituting a regulated default solar-soaker style tariff. While this will not apply directly in Victoria, it has been widely discussed in the media and the Victorian government may well follow suit (noting that it currently favours flat tariffs).
- The AEMC's current pricing review is at draft report stage[18]. Currently it appears to favour greater fixed tariffs as a standard (which would leave less financial scope for incentivising load-shifting) and for network tariffs to be aimed at retailers rather than directly at customers.

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[17] CitiPower – p. 54 https://www.aer.gov.au/documents/citipower-revised-proposal-2026-31-revenue-and-expenditure-forecasts-december-2025; Powercor – p. 67 https://www.aer.gov.au/documents/powercor-revised-proposal-2026-31-revenue-and-expenditure-forecasts-december-2025; United - p. 50 https://www.aer.gov.au/documents/united-energy-revised-proposal-2026-31-revenue-and-expenditure-forecasts-december-2025; Jemena - pp. 38-9 https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025

[18] https://www.aemc.gov.au/news-centre/media-releases/electricity-pricing-reforms-target-fairness-lower-costs

In the light of these emerging developments, it remains to be seen how successful a DNSP-driven communication campaign would be given the State Government politically favours flat tariffs and it will require consumers to not only understand the different network tariffs but also to search for a retailer that offers those cost reflective tariffs and opt in. We note Jemena has withdrawn its similar step change ($4.3m) after it was rejected by the AER in its Draft Decision[19].

The second part is $7.3m for an expansion of AusNet's customer relationship team. This is aimed at supporting different types of customers both on a BAU basis and during emergencies and has clear customer support.

In both cases the merits of the expenditure cannot realistically be determined purely by the application of a cost benefit analysis.

Coordination Group Perspective: *support*

We support discretionary programs that have customer support and a high chance of achieving their aims. The customer relationship expenditure meets both these criteria. The AER should evaluate the two components of this expenditure separately, taking account of:

- Its view on 'materiality'
- The likelihood of impact
- The clear customer support for this expenditure
- The fact that this expenditure is discretionary and the activities are unlikely to go ahead if the proposed funding (or a similar amount) is not included in the calculation of allowed revenue.
- The need to put in place accountability mechanisms where such discretionary expenditure is allowed.

5.4.5 Benchmarking

In benchmarking it is important to look at absolute as well as relative productivity. The AER's assessment of base year opex efficiency is based on the latter. It accepted 2022-23 as a not materially inefficient base year concluding (Attachment 3 p. 9) using the results from the 2024 Annual Benchmarking Report:

> ***"…AusNet has been fairly efficient over the 2006-2023 period when compared to other distribution businesses in the NEM."***

AusNet with an average efficiency score of 0.80 over that period, ranked sixth out of 13 businesses. The score of 0.76 for the more recent 2012-23 period is:

> ***"…above our benchmark comparison point of 0.75, though more borderline that other benchmark comparator businesses."***

When looking at absolute productivity, the recently published results for 2023-24[20] showed all but one of the distribution networks' productivity declined in 2023-24, continuing a trend since 2021. AusNet's multilateral total factor productivity fell 6.9 per cent from the previous year with an annual average fall over 2006-24 of 1.1 per cent. The

[19] See p. 39 https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025
[20] https://www.aer.gov.au/documents/aer-2025-annual-benchmarking-report-electricity-distribution-network-service-providers-november-2025

fact that other networks' productivity fell also in 2023-24 meant that AusNet ranking went up to 11th in 2023-24 from 12th in 2022-23.

While acknowledging there is a lot of debate on the measurement methodology that AusNet considers biases the results against it, consumers can only go on what the AER has published and its justification for the approach it has taken. Aside from the methodological issues raised by AusNet, some of which will be considered by the AER in the next few years, consumers have long expressed concern about the low 0.75 comparison point used for benchmark efficiency. This means a network that is 25 per cent less efficient that the most efficient network, is still considered 'not materially inefficient'. This benchmark level is to be reviewed in 2027.

5.4.6 Overall productivity

The revised proposal includes a 0.5 per cent per annum productivity assumption (the minimum required for DNSPs), consistent with the initial proposal and the draft determination, but lower than the 1 per cent recommended by the CRG in our initial report. However, the productivity gains ($21.4m over 2026-31) are more than outweighed (albeit marginally) by the real price escalators ($25.2m over 2026-31), which AusNet state[21]:

> ***"…primarily relate to labour cost escalation"***

Conventionally, real wage increases are a reward for productivity gains, so it appears that AusNet employees are capturing all their productivity gains and then some (especially since AusNet has previously stated that the AER's real price methodology understates wage pressures), leaving nothing from which customers can benefit. If NSPs are systematically unable to improve productivity above and beyond real wages, then this has broader implications for energy policy – primarily that it will become increasingly costly to hand energy transition activities to NSPs to carry out, compared to allowing the competitive sector to do so (given that competitive businesses often have no choice but to either absorb cost increases or offset them by productivity improvements).

In any case, we consider that the factors that led us to the view that 1% productivity assumption is reasonable still apply - AusNet's relatively poor productivity performance against its peers, the range and quantum of proposed step changes and the importance of affordability to customers.

Additionally, we would note that if it turns out that opex exceeds the allowance, customers bear 70 per cent of the overrun.

[21] AusNet, Electricity Distribution Price Review 2026-31 Revised Regulatory Proposal, December 2025, p190

6 Capital expenditure

6.1 Background

Capital expenditure (capex) is expenditure on physical assets (and some types of software) that will endure for several years, or even decades. Accordingly, consumers pay for capex across the life of the investment and so it impacts consumers in the forecast period and well beyond. New capex programs (such as resilience capex in this proposal) are likely to expand into future periods and so can have a significant cumulative impact on customer bills.

In the regulatory framework, capex is a significant driver of networks' costs over the long term, because networks are compensated for capex investments via *return of capital* - (depreciation) over the asset life and *return on capital* - a return on the depreciated asset value at a rate determined by the AER (referred to as the Weighted Average Cost of Capital or WACC).

This is why capex makes up 66.4 per cent of the total nominal revenue AusNet is seeking in its revised proposal[22]. Of this amount, ~70 per cent comes from return on capital and the remainder from return of capital.

Our focus here is major issues raised in the Draft Decision - cost estimation and contingent risk allowances, deliverability, reliability, resilience, connections and large renewables enablement. We begin by summarising the major issues raised in the Draft Decision that we intend to focus our commentary on. Then we discuss AusNet's revised proposal and then provide comment on both the Draft Decision and revised proposal.

We end with comments on issues that may be outside of the AER's ability to respond to under the rules and are matters to be considered by the forthcoming AEMC electricity network regulation review ('AEMC review')[23].

6.2 AER's draft decision

The AER's alternative forecast of $1,701m is 51.3 per cent below AusNet's proposal. There were significant reductions in all capex categories, varying from 9 per cent for connections to 75 per cent for augmentation.

Of the four Better Resets Handbook expectations, AusNet only met one – genuine consumer engagement on capital expenditure proposals. It did not satisfy expectations on – top-down testing of the total capex forecast and at the category level, evidence of prudent and efficient decision making on key projects and programs and evidence of alignment with asset and risk management standards.

The results of their top down review – large increases in all capex categories compared to current period forecasts, AusNet has higher unit rates and shorter replacement lives compared to the NEM median and a reduction in SAFI from 2015 to 2024 suggests a general improvement in reliability (acknowledging poor performance in some regional areas) – led to a detailed bottom-up review of most capex categories.

The AER found that forecast capex was not prudent and efficient across many areas, concluding (Attachment 2 p.8):

[22] See Table 4-1 p. 47 Revised Regulatory Proposal
[23] https://www.aemc.gov.au/market-reviews-advice/electricity-network-regulation-review

> ***"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 provide, contained risks that are valued too highly 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."***

We now discuss the AER's comments on specific issues we consider important to consumers.

6.2.1 Cost estimation and contingent risk allowances

A major part of the Draft Decision was to reject AusNet's application for a blanket 7-10 per cent risk allowance and management reserve to a range of proposed capex projects to account for inherent and contingent risks. This is because unit rates and project cost estimates do not include overheads, finance charges or management reserve. The AER concluded (Attachment 3 p. 24):

> ***"As a general principle, we only accept risk allowances in limited circumstances that are specific to a particular project or program. For example, risks that relate to a realistic latent condition with the site(s), or specific risks that are reasonably likely to arise that are beyond the control of the Networks Service Provider. In such cases we review the nature of each type of risk as well as the basis of the calculation of the estimated risk cost(s). We do not accept a general contingency allowance, and this is reflected in a number of recent decisions."***

Given a network receives a capex allowance based on actual historical costs in its Regulatory Information Notice (RIN) data that are benchmarked its RIN data with other DNSPs, it is reasonable to assume that the 'overs and unders' will balance out over the 5-year reset period.

The AER continues (Attachment 2 p. 25):

> ***"We consider that AusNet has significant control over its capital program. Further, the additional costs that AusNet seeks to include within the contingency risk allowance have already been addressed through other components of the regulatory process... As a result, these costs should not be incorporated into the unit cost build-up.***
>
> ***AusNet's contract with its service provider Zinfra should already account for project risk. Further, project delivery risks are within AusNet's control, who are best placed to manage this rather than customers. We consider that including a unit rate risk adjustment would result in double counting or customers paying a premium for costs that may not eventuate…***
>
> ***AusNet should provide adequate justification and evidence for any proposed risk allowance, demonstrating that it relates to a specific, identifiable risk associated with a particular project, consistent with the principles outlined in this section."***

The end result was that the risk allowance of $104.4m was rejected.

6.2.2 Reliability

The AER made significant reductions to AusNet's proposed reliability program with a range of concerns – modelling shortcomings, projects not having a positive NPV, the QCV/VCR approach not justified as an alternative to the AER's VCR in addition to the risk allowances issue. We will focus our comments on two programs – upgrading the 10 worst

served feeders and the Regional Reliability Allowance – which were topics of detailed consumer engagement.

The 10 worst served feeders were chosen based on customer engagement with a total investment of $23.7m. The AER's objections to this investment include[24]:

- the 10 worst feeders identified by AusNet are not what the AER would identify as the 10 worst performing feeders
- AusNet has not demonstrated that the proposed capex will address the underlying cause of poor performance
- The incorporation of a solar export into the total unserved energy to calculate the VCR is not correct.
- under the AER's updated modelling (removing the solar export) all the NPVs for the 10 feeders reduced and 8 of them became NPV negative
- it is not clear what the optimal timing of the investment is.

The Regional Reliability Allowance of $88.9m in augmentation capex was rejected because it did not satisfy the capex criteria that requires a program of work that can be demonstrated as prudent and efficient.

6.2.3 Resilience

The AER found that[25]:

> "AusNet had not justified a majority of its resilience program as prudent and efficient"

leading to an alternative estimate of $42.3m compared to the proposed $260.9m.

6.2.4 Connections

The AER's Draft Decision on connections made two changes to AusNet's proposal. Consistent with their views on AusNet's demand forecasting, they considered that the volume connections forecast was too high and applied a 10% reduction The AER also made an adjustment to AusNet's capital contributions to account for an under recovery regarding its data centre contribution, which resulted in a net reduction in the connections expenditure forecast. The AER made clear that:

> ***"our alternative estimate is a placeholder, and we expect AusNet to update its demand, connection and energy consumption forecasts, and address our concerns in its revised proposal.[26]"***

6.2.5 Deliverability

The Draft Decision did raise deliverability concerns on the station rebuild program with the alternate forecast lower to reflect one rebuild being deferred into the next regulatory period. EMCa did make some comments on deliverability[27]:

> ***"AusNet's approach to its deliverability assessment is reasonable, however the magnitude of the proposed increases (including expenditure beyond our scope of review) presents major delivery challenges."*** (p. xiv)

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[24] AER, Draft decision AusNet Services electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 2 – Capital expenditure, September 2025, pp42-43
[25] Capex Attachment 2 p.9
[26] Ibid, p54
[27] https://www.aer.gov.au/documents/emca-review-aspects-proposed-network-related-expenditure-and-cer-ausnet-services-2026-31-regulatory-proposal-august-2025

> ***"We have not undertaken an exhaustive assessment of AusNet's delivery strategy or deliverability assessment of all parts of its proposed program."*** (p. 23)

6.2.6 Large renewables enablement

The AER rejected this expenditure on the grounds that it was fundamentally incompatible with the NER, noting:

> ***"However, this is a broader policy consideration for the Victorian distribution network, that goes beyond AusNet and its distribution determination. The regulatory determination process is not an appropriate forum for changes to the established connections framework to be made, as this would involve a broader discussion on potential rule changes for distribution integrated system planning and renewable energy zones in the NEM"***[28].

6.3 AusNet's revised proposal

Table 6.1 below summarises AusNet's revised proposal over the current and forecast reset periods. There is a 61 per cent increase over the current period forecast which itself is 26 per cent above the current period allowance.

Table 6.1: Capital expenditure summary 2021-2026 to 2026-2031, $m (2025/2026)

2021 – 2026			2026 – 2031						
			Regulatory Proposal			Revised Regulatory Proposal			
AER allowance	Actual / Forecast	% chg. vs allowance	Proposal Request	%chg. vs 2021-2026 allowance	%chg. vs 2021-2026 Actual / Forecast	Proposal Request	%chg. vs 2021-2026 allowance	%chg. vs 2021-2026 Actual / Forecast	% chg. vs 2021-2026 Reg Proposal
$1,720	$2,169	+26.1%	$3,496	+103.2%	+61.1%	$3,408	+98.1%	+57.1%	-2.5%

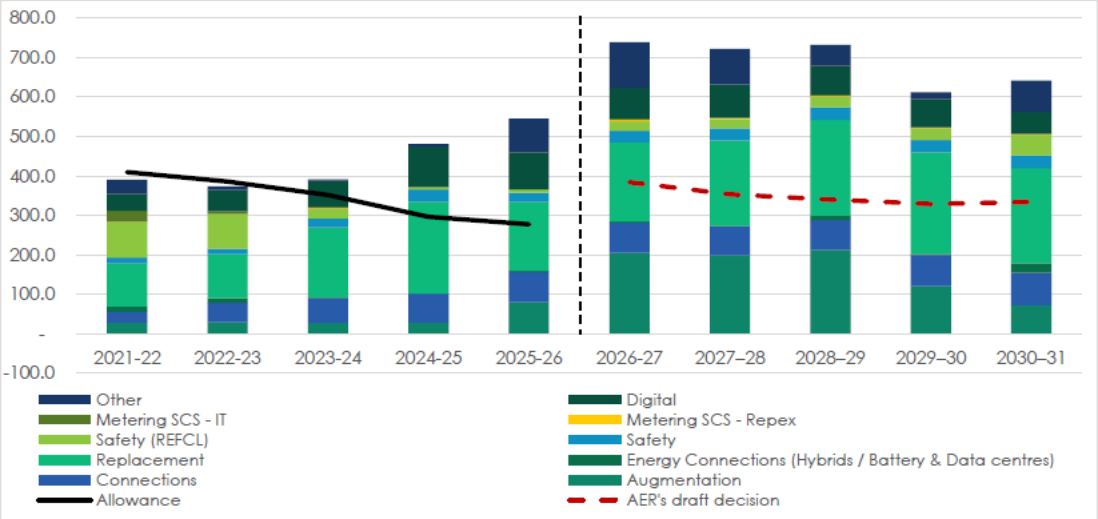
The Revised Proposal:

- accepts ~$456m of the AER's alternative forecast
- provides considerable additional supporting evidence to justify the revised capex proposal, address the AER's concerns around modelling methodology and justify the inclusion of a contingent risk allowance.

Proposed capex is only slightly (2.5 per cent) below the original proposal. The expenditure profile remains very similar with the large increase in capex in the last two years of the current period (2024-5 and 2025-6) being further extended in all years of the forecast period.

[28] AER, Draft decision AusNet Services electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 2 – Capital expenditure, September 2025, p39

Figure 6.1: Actual, expected and proposed net capital expenditure ($m, real 2025-2026)



As we noted in our submission on the Regulatory Proposal, consumer engagement on at least the IAP2 spectrum consult level covered $754m of ~ 25 per cent of total proposed capex. The capex engagement post the Draft Decision (at the 'All In' forum on 6th November) covered 1.2 per cent of revised capex relating to resilience. This lower proportion reflects a combination of AusNet's acceptance of parts of the Draft Decision, the results of earlier extensive engagement (e.g. resilience) and AusNet's decision on which parts of the revised proposal would be consulted on in the very narrow consultation window.

AusNet considers that it has done sufficient risk analysis to be confident that it will be able to deliver this capex program.

6.4 Comments on the Draft Decision and AusNet's revised proposal

We leave the AER to assess whether the additional information provided by AusNet is sufficient to justify prudence and efficiency. Our focus here is on the Draft Decision issues discussed above - cost estimation and contingent risk allowances, reliability, resilience and large renewables enablement as well as issues we consider important to consumers – deliverability, connections and potential issues for the forthcoming AEMC review.

6.4.1 Cost estimation and contingent risk allowances

AusNet chose to not engage on this topic that ended up being a significant factor in the Draft Decision. While we have had some limited engagement as we prepared this submission that has helped our understanding of AusNet's approach, we have not had the opportunity to fully understand this approach and why AusNet considers the AER has not appropriately considered it.

Cost estimation accuracy is a very significant issue for consumers looking for value for money in service delivery given the well publicised cases in recent years of major cost blowouts in major network projects. While DNSPs should, in theory, be less exposed to the cost blowouts given the major component of repeatable projects, they face similar industry wide cost pressures with current period expenditures generally well above AER allowances. Consumers have no way of mitigating cost overruns and have to pay 70% of any total capex overspend.

AusNet used two sources for its unit cost forecasts which are described as 'P(50) unbiased cost estimates':

- For inspection-based programs – risk adjusted rates from its service provider Zinfra with additional costs for materials, and
- For all other replacement programs – actual costs of recently delivered similar programs

The cost build-up to produce the P(50) unbiased is a combination of:

- a direct cost estimate ('the minimum cost required to complete projects in ideal conditions') which is considered a 'biased' cost estimate, plus
- a P(50) risk allowance covering inherent risks (e.g. uncertainty in scope or quantities) and contingent risks (e.g. project delays, scope creep) direct based on Monte Carlo simulations

for all projects except where the cost is based on an actual recent project to avoid double counting. The total risk allowance of $104.4m was rejected by the AER.

In the Revised Proposal, AusNet seeks to justify the need for risk allowances and continues to advocate for them. AusNet present their cost estimate methodology including different AACE cost accuracy estimates at different stages of the project development cycle – most of the cost estimates align with AACE Class 3 or 4 estimates. Table 5-12 (pp. 78-9) provides a number of examples where actual costs were materially above the P50 cost estimate. Given that forecast capex in the current period is 26 per cent above the AER allowance it suggests that at least some of the 'P(50) unbiased estimates used in AusNet's 2021-26 proposal have not been unbiased.

We have been unable to assess whether AusNet's approach in 2026-31 has removed those biases. In theory, Monte Carlo modelling is designed to remove those 'under' or 'over' biases, but this 'black box' modelling is only as good as the input assumptions on the dollar consequence values used and we have not had the opportunity to review them. These values are likely to be heavily influenced by the allocation of risk between AusNet and Zinfra, its new Construction Delivery Partner (CDP) that recently replaced Downer.

The risk allowance is included for projects delivered by Zinfra. A common reason for overspend in the project listed in Table 5-12 (pp77-79) is 'contract variations from CDP'. We do not have the ability to review in detail the confidential contract with Zinfra, its new CDP. AusNet argues that AER has misunderstood the delivery risk allocation with Zinfra.

We encourage the AER to closely examine the Zinfra contract to see how the contingent risk is allocated between Zinfra and AusNet. For example, scope change is a common way for contractors to increase return on tight margin contracts. For many of the projects described in Table 5-12, 'incomplete scope', 'scope refinement' and 'design update' were common reasons for the overspend. We understand that the Zinfra contract has an incentive mechanism where the benefits are shared between AusNet and Zinfra and this may limit this risk.

The issue for consumers is not just whether actual costs exceeded estimates at the time of the revised proposal or project sanction, but whether consumers are going to get the most value from the AER capex allowance. A misallocation of risk could result in a P50 estimate being an underestimate and so fewer projects can be completed with the AER capex allowance unless AusNet decides to overspend with consumers paying 70 per cent

of the overspend. Consumers cannot rely on the AER undertaking an ex-post review as that depended on the level of overspend.

As we review the data provided in the revised proposal, consumers are interested in:

- why were all these increases completely outside of the AusNet's control? Many of the contingent risks listed on p. 75 have been present for all projects for many years, they are not new risks that have just appeared; is AusNet's Monte Carlo analysis going to be a better predictor of actual costs that it seems to have been for the current period?
- should AusNet change its cost estimation methodology to reflect the market pressures they talk about? Is an AACE Class 3 estimate for business cases still appropriate?

On the latter, Table 5-9 on p. 72 says that the maturity level project definition for a Class 3 estimate is 10-40 per cent. AusNet does not provide data on the maturity level for the individual projects in Table 5-12 on pp. 77-79 which could provide important information on why an overspend occurred. AusNet does not seem to think that, despite its extensive discussion of the risks, it should move to either a more accurate business case Class estimate or at least a maturity level at the upper end of the Class 3 range. For example, 'cost variation' is a common reason for overspending in projects listed in Table 5-12.

Perhaps part of the confusion relates to whether the risk allowances are explicit or not. AusNet says that their 2027-32 transmission proposal also adopts a P(50) unbiased approach, but that proposal does not separate out risk allowances[29] as this Revised Proposal does.

Coordination Group Perspective: *unsure*

The lack of engagement has meant that we are unable to come to a landing on whether the inclusion of risk allowances does produce a so-called 'unbiased P(50) cost estimate that reflects an appropriate risk allocation between AusNet and its consumers and so is a robust guide for a prudent and efficient capex spend.

We leave it to the AER to decide given the additional information provided in the Revised Proposal.

When reaching its decision the AER should not consider our inability to reach a definitive position as a reason to reject AusNet's proposal.

6.4.2 Reliability

The issue of network reliability (and resilience) has become front and centre in network discussions with their customers as increased incidence of severe climate events test network performance. However recently AER decisions have been quite critical of network capex proposals for their failure to meet the capex criteria of prudency and efficiency – this Draft Decision is no different. Customer support and willingness to pay for increased expenditure has been met with AER declining major parts of proposed expenditure.

AusNet has had been able to draw on the AER's Resilience Guidance Note published in 2022[30] plus the AEMC's final rule change to incorporate resilience into expenditure

[29] See p. 74 https://www.aer.gov.au/documents/ausnet-services-trr-2027-32-revenue-proposal-7-nov-2025

[30] https://www.aer.gov.au/documents/aer-note-key-issues-network-resilience-april-2022

factors[31] to help them navigate the process to engage with customers and obtain approval for this expenditure. However they have not had the final AER resilience guidelines flowing from that rule change that are due to be completed in December 2026.

A key part of the proposed reliability expenditure was upgrading the 10 worst served feeders that was rejected by the AER. The premise of this expenditure was that there are some customers - typically on long rural feeders, with low customer density – who experience much worse reliability than average but for whom there is never sufficient incentive for the network to improve their reliability. The Coordination Group's previous report noted that:

> ***"There is broad support for the concept of uplifting reliability for customers facing well below average levels of reliability even if the net benefit based on VCR values is negative"[32].***

The clear message from consumer engagement was that reliability in worst served feeders was strongly supported for equity reasons. Not surprisingly consumers on these feeders were willing to pay for reliability upgrades. But so were those consumers enjoying a high level of reliability. Customer engagement was carried out on the understanding that the investment would not necessarily pass the NPV test. The total proposed investment was $23.7m, which was below the figure implied by AusNet's "willingness to pay" research.

However, this strong customer support was irrelevant for NPV negative projects.

We don't think that the choice of feeders is an inherent problem and the optimal timing issue appears a second order issue. We understand the AER's rationale in seeking "root cause" analysis to help evaluate other options. But the AER's preference appears to be for more "targeted" investment, based on this root cause and positive NPV, rather than increasing reliability outcomes more broadly. We are not clear why this is preferable from a consumer perspective even if it complies with the capex expenditure guideline.

In considering the associated element of the proposal the Regional Reliability Allowance (RRA), the AER has stated that[33]:

> ***"AusNet stated that the regional reliability allowance will 'be spent on projects that do not pass an NPV test taking into account the current values prescribed by the regulatory framework'. Network businesses cannot make inefficient investments contrary to capital expenditure criteria in the NER"***

One reading of this statement is that non-NPV positive projects are inherently inefficient and cannot meet the capital expenditure criteria. But if this is the case, then this type of program is doomed from the start. AER staff observed customer engagement workshops in which these programs were discussed. It was always a core premise of this program that the projects were unlikely to be NPV positive by their nature (and equity rather than efficiency being the trade-off). Given that it is unreasonable to expect the AER, even if it is observing the engagement, to advise something like 'this proposal will never be approved because it does not meet the capex criteria', AusNet was in a difficult position.

It could have simply not engaged on a matter that it knew had a small chance of AER approval. But then that would have denied consumers the opportunity to express their view on what they regarded as a very important topic. We strongly supported AusNet

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[31] https://www.aemc.gov.au/sites/default/files/2025-05/information_sheet.pdf
[32] Co-ordination group, Independent Report on Regulatory Proposal 2026 – 2031, May 2025, p43
[33] Ibid, p41

engaging on these projects that may or may not have ended up with a positive NPV case, recognising that the economics of particular projects can change over the course of an 18-month engagement period. AusNet told the panel that these projects did not have a high chance of AER approval. But still Panel members supported AusNet including it as part of their proposal.

Given the AER's concerns regarding the worst served feeder expenditure (and the Benalla-Euroa feeder upgrade), it's unsurprising that they also did not accept the RRA, which was both a larger amount and did not include specific projects. While the RRA did enjoy customer support, it always appeared to be a "long shot". We would however note the AER's comments regarding the proposed process which highlight the broader issues with the lack of flexibility of the framework:

> ***"We are unable to assess the merits of this against the criteria for assessment of capital expenditure as the proposal is an unallocated lump sum fund without any associated costed projects or benefits"***[34]
>
> ***"We do not consider that businesses can rely on a 'use it or lose it' concept or mechanism because there does not appear to be a means by which unspent funds could be returned to consumers within the limits of the NER framework"***[35]

In the case of the first comment, we understand the concerns, but the corollary is that in the context of a fast moving and uncertain transition, there is apparently no way to set up governance arrangements to monitor and assess specific proposals that are formulated during the regulatory period. This issue was also flagged in this submission in respect of the innovation expenditure proposal. We recognise there is a balance between ensuring prudency and efficiency on the one hand and giving the network the flexibility to respond to a fast changing environment. We recognise that NSPs can spend their allowance on whatever is deemed necessary once the period is under way, but this also raises the question as to why the building blocks that make up the allowed revenue must *in all circumstances* be made up of pre-specified projects and whether an ex post review process might provide the flexibility with the safety net of ensuring prudency and efficiency. This is a topic for consideration in the forthcoming AEMC review.

In the case of the second comment, if the AER have identified a limitation with the NER that doesn't allow a mechanism clearly designed to protect consumers, then that indicates a problem with the rules, and thus another topic for the AEMC review.

To conclude, we noted in our first report that:

> ***"If the AER has concerns about the specifics of the proposal, we would expect them to propose an alternative approach to address the issues faced by "worst served customers."***[36]

Perhaps the AER has provided some guidance in its Powercor Draft Decision[37] cited above in the engagement chapter where it commented on NPV negative projects that have strong consumer support:

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[34] Ibid, p40
[35] Ibid, p41
[36] Co-ordination group, Independent Report on Regulatory Proposal 2026 – 2031, May 2025, p43

[37] See AER Draft Decision Powercor p. viii https://www.aer.gov.au/documents/aer-overview-draft-decision-powercor-distribution-determination-2026-31-september-2025

> ***"Although these projects were broadly supported by Powercor's stakeholders, community support is not the sole factor in determining whether a project is prudent and efficient. The driver of these projects is to improve reliability. However, in the absence of a regulatory obligation, we must assess the cost and benefits of these projects."***

We think it is reasonable for consumers to interpret these words as saying 'if you do not like the AER's approach of rejecting NPV negative projects that have strong consumer support then go and petition the State Government to introduce a jurisdictional scheme'. However, with this approach, the AER is constrained to assess prudency and efficiency based on the jurisdictional scheme rather than one developed between the network and its consumers.

Now the Victorian Government has indicated it is considering introducing minimum reliability standards. If this occurs it will drive an investment program that may differ from AusNet's proposal as follows:

- It will be uncapped – AusNet will have to spend whatever necessary to meet the standards
- None of the required projects will be evaluated for their NPV
- The obligation will likely occur mid-period requiring a pass through application; while the AER will no doubt scrutinise the investment proposed to see if the standard could be met more cheaply, there may not be an option to adjust GSLs or STPIS targets as AusNet have done in their proposal.

In other words, a minimum standard may be worse value for money than a proactive targeted investment program.

In response to the AER's concerns, AusNet have significantly scaled back the reliability program. The RRA has been removed and the worst served feeders program has been scaled back by over 90 per cent in $ terms. This results in only 2 projects being proposed, both of which are NPV positive.

While we understand AusNet's conservatism in the light of the AER's feedback, this program no longer represents the intent underlying the worst served feeders program, which was to materially uplift reliability across these feeders. So, while we are supportive of the revised proposal, we consider that customer preferences for AusNet to deliver this more ambitious outcome have been lost along the way.

We note that AusNet has taken a less conservative approach in proposing a higher cost solution for the Euroa project, and one that is marginally NPV negative. Essentially this means that the reliability uplift program is largely concentrated on improving outcomes for one group of customers. Members of the Coordination Group have visited Euroa and can confirm the scale of dissatisfaction and customer detriment due to reliability outcomes following the REFCL installation that AusNet comment on in the revised proposal. We support AusNet's intent in seeking a material improvement in reliability, noting that the AER still needs to satisfy itself that this represents the efficient level of expenditure necessary to deliver that outcome.

Coordination Group Perspective: *support*

We support the Revised Proposal's worst served and Benalla – Euroa feeder upgrade projects.

The AER should provide clear guidance on how it intends to assess projects that are not NPV positive but are strongly supported by high quality consumer engagement.

We would support AER approval in limited circumstances and with strong guardrails e.g. capex caps based on the AER's view of the efficient level of capex for such projects.

6.4.3 Resilience

This is an area of investment that received strong support from customers and we are pleased to see that AusNet is continuing to propose a material program of network hardening. We consider that the AER's focus should be on whether this represents the efficient level of expenditure to deliver the expected outcomes. For example, the revised proposal did this address this issue in the case of the optimal trade-off between capex (network hardening) and opex (hazard tree removal).

The AER did not approve[38] the proposed $10.4m to install back-up supply to 30 community hubs across the network because this is a 'behind the meter' activity is:

> ***"…not … a network service, as these can and have been provided by third parties and are considered part of a competitive market. In addition, the installation costs and ongoing maintenance (including the ownership) of these assets are typically borne by the building owners as these assets are within its properties as they are the direct beneficiaries of the backup supply. AusNet has not considered why and how the proposed community hubs are appropriately recovered as a standard control service."***

In retrospect it is surprising that AusNet did not use the F&A process to argue for community hub services to be classified as a distribution service, if that is possible under the Rules. The January 2025 Regulatory Proposal discussed how community hubs address the AER's resilience guidance note[39]. AusNet proposed a number of new services in its submission to revise the F&A [40] e.g. SAPs, Emergency Backstop, Essential System Services, data provision and advisory services, but not back-up power supply.

AusNet was in a similar position as it was with reliability capex. AusNet have advised that they were unsure of whether it would be considered a distribution service but still felt it was an important topic to discuss in the context of community hubs and this was supported by engagement feedback. It was presented as a cheaper non-network alternative to capital intensive augmentation expenditure[41] and strongly supported by

[38] See AER Draft Decision Attachment 2 Capex p. 51 https://www.aer.gov.au/documents/aer-attachment-2-capital-expenditure-draft-decision-ausnet-services-distribution-determination-2026-31-september-2025

[39] See Table 6.29 p. 190 https://www.aer.gov.au/documents/asd-ausnet-edpr-2026-2031-regulatory-proposal-31-jan-2025

[40] See p. 4 https://www.aer.gov.au/documents/ausnet-services-framework-and-approach-letter-and-proposal-october-2023-0

[41] See p. 175 https://www.aer.gov.au/documents/asd-ausnet-edpr-2026-2031-regulatory-proposal-31-jan-2025

the Electricity Availability Panel during engagement as a cost effective approach to areas with a high probability of an outage[42].

The result is that this is yet another area where customer engagement has had no impact on the outcome of this process. We would urge the AER to consider how AusNet and other NSPs can legitimately contribute to communities' desire for robust community hubs that can provide essential services that require energy supply during and after extreme weather events. We recommend that it be considered as part of the development of the AER's formal network resilience guidance notes to be developed following the AEMC rule change process last year[43].

Coordination Group Perspective: *support*

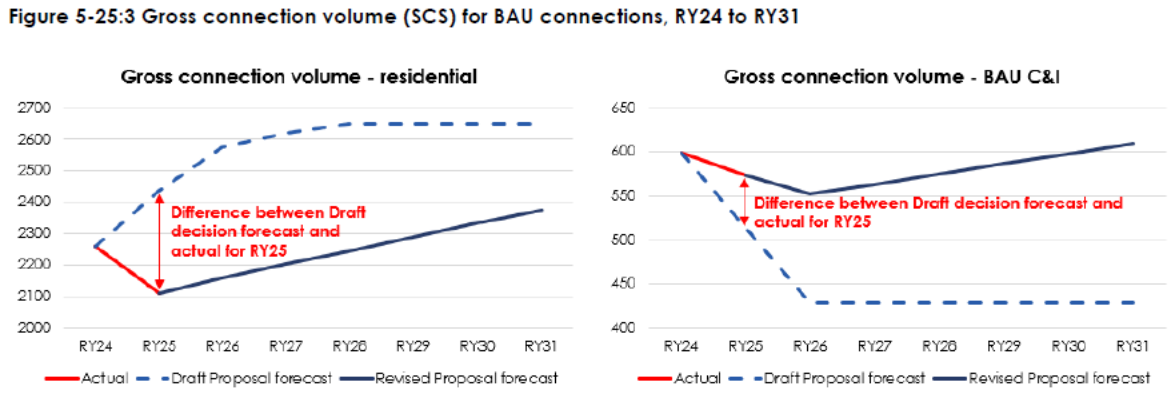
We support this initiative. The AER should allow an amount for proactive network hardening, noting the strong customer support for this initiative. This does not preclude them substituting in a different amount if it considers there is a more efficient way to deliver the proposed outcomes.

As we have noted above, we look forward to the AER providing more detail on the role of consumer engagement in influencing its decisions.

6.4.4 Connections

AusNet's revised proposal is materially different from its initial proposal, despite only ten months elapsing between the two. There has been an increase of 22.3 per cent for gross connection capex and 34.6 per cent for net connection capex compared with the Initial Proposal. While large new business connections like data centres might be expected to be hard to forecast, it seems the same is true of BAU connection types, as shown in Figure 6.2.

Figure 6.2: Selected connections categories – changes from initial to revised proposals[44]



[42] See p. 179 and p. 187- https://www.aer.gov.au/documents/asd-ausnet-edpr-2026-2031-regulatory-proposal-31-jan-2025

[43] https://www.aemc.gov.au/rule-changes/including-distribution-network-resilience-national-electricity-rules

[44] AusNet, Electricity Distribution Price Review 2026-31 Revised Regulatory Proposal, December 2025, p142

Additionally, EV charging connections costs have increased by 28 per cent. This volatility in forecasts has a bigger impact than large scale connections because the latter generally contribute a higher proportion of the gross cost.

In highlighting these changes we are not seeking to criticise AusNet's (or the AER's) forecasting ability. It is entirely plausible that the pace of change and level of uncertainty due to the energy transition has made such forecasts harder than before. NSPs do not control the volume of connections requests but have some control over the unit costs and should be able to estimate the average cost of standard connection types (even if not bespoke large customers connections).

What we would expect in such a situation is for a solution that protects customers from forecasting risk, for example by using volume drivers to determine the allowed revenue for net connections.

We are pleased to note that this is what AusNet has proposed in their Revised Proposal. Where volume drivers are not feasible, for example for large bespoke connections, AusNet propose adjustments to CESS penalties for large bespoke connections. Both these incentive elements are as per the AER's CESS decision of August 2025. However, AusNet had previously engaged with the CG and Panels on the principle of CESS adjustments for hard-to-forecast connections.

Coordination Group Perspective: *general comment / support*

AusNet's revised proposal reduces the importance of getting the "right" ex ante forecast of volume connections, and as such is an effective protection against volume forecast risk.

So we leave it to the AER to review the ex-ante forecasts, but support the application of the volume drivers and the CESS penalty adjustments for large bespoke connections.

6.4.5 Deliverability

This is an issue we raised in our submission on the Regulatory Proposal. AusNet has provided delivery plans for growth corridors and has reassessed the timing of projects to as part of its resource smoothing/deliverability assessment.

AusNet notes (p. 105):

> ***"Except for the limited commentary in the Draft Decision (as summarised in this table), neither the AER nor EMCa identified specific concerns with the deliverability of our proposed network capex program, which was supported by the Strategic Deliverability Plan submitted with our Initial Proposal. In fact, EMCa concluded that "…we consider that AusNet has taken reasonable steps to develop the required capacity to deliver its proposed works program".***

Given the additional EMCa comments cited above we do not agree with the implication that there are no deliverability concerns.

As the AER provides networks with a bucket of capex for the network to spend how and when it wishes, deliverability is not a specific factor the AER is required to consider. Nevertheless, from a consumer perspective, AusNet is saying (p.58):

> ***"…if the AER's Draft Decision forecast is upheld in its Final Decision forecast, this will have serious and harmful ramifications for our customers as we will have***

> ***insufficient funding to manage demand growth, operate and maintain the network in a safe and reliable manner, and meet our regulatory obligations."***

So its ability to deliver on its proposed capex program is critical for consumers.

We would strongly recommend the AER closely examine the deliverability in the context of factors such as:

- the AusNet Services proposed 2026-31 capex spend of $3,408m is 57.1 per cent above the forecast $2,169m in the current period
- large capex increases compared to the current period other Victorian DNSPs e.g. 62 per cent for Jemena and 26 per cent for Powercor
- ISP projects to be competed in the 2026-31 period in Victoria and NSW – HumeLink ($4.9b)[45], VNI West ($7.6b), Western Renewables Link and Marinus Stage 1 ($5.1b)[46]

Infrastructure Australia's recent annual report[47] showing the Major Public Infrastructure Pipeline increasing by $29 billion over the last year to reach $242 billion—the highest level since the agency began tracking nationwide government infrastructure investment five years ago. They note:

> ***"The growth is largely driven by government investment in energy transmission and housing projects, as governments double down in a bid to meet their housing and net zero targets."***

Labour shortages could reach 300,000 by 2027. Regional areas will be the hardest hit, with shortages forecast to quadruple between 2025 and 2027. This labour shortage is compounded by poor productivity.

Coordination Group Perspective: *general comment*

The AER should satisfy itself that AusNet is realistically capable of delivering the total package of works included in the allowed capex.

6.4.6 Large renewables enablement

Again, this seems to be a failure of process. AusNet discussed this proposal and its rationale extensively with customer advocates including on occasions when AER staff were present as observers. Whether AusNet should have known all along that this proposal was futile, or whether the AER should have taken the opportunity to warn them is moot. The result is that a year or more was spent on engaging on a topic that was never going to succeed rather than trying to find a workable solution to the question of how to determine whether DNSPs can host new generation at a lower incremental cost than TNSPs. If so then to ensure that the connections regimes of each are on a comparable footing, so that the lowest system cost outcome can be achieved.

While it might be formally outside the scope of the reset process, we would like to see some commitment from the AER and relevant NSPs to work with jurisdictions to develop a methodology for assessing and valuing such augmentation projects in line with the

[45] https://www.aer.gov.au/news/articles/news-releases/aer-approves-reduced-costs-humelink-stage-2; https://reneweconomy.com.au/humelink-transmission-line-finally-opens-up-to-wind-solar-and-battery-proposals/
[46] https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2025/2025-electricity-network-options-report/final/2025-electricity-network-options-report.pdf?rev=7fd2059752bd41eba55184df4e389e1e&sc_lang=en
[47] https://www.infrastructureaustralia.gov.au/2025-infrastructure-market-capacity-report

NEO's emissions reduction objective. We consider there could be a link into the current rule change proposal for enhanced distribution system planning.

Coordination Group Perspective: *regulatory reform*

AusNet (ideally with input from the AER and other relevant parties) should work develop an appropriate rule change proposal aimed at ensuring renewables connection at lowest system cost.

6.4.7 Electricity Network Regulation Review

A consistent theme arising from this process is that on several occasions, AusNet have elicited consumer views in support of initiatives that it turns out are not consistent with the existing regulatory framework. In such cases the consumer perspectives simply get lost just because the current rules do not facilitate delivering the outcomes consumers are seeking and are prepared to pay for.

The AEMC[48] review is an opportunity to consider this and other issues.

Coordination Group Perspective: *regulatory reform*

We see a key issue for the AEMC review is to assess the relative roles of consumer engagement and capex/opex expenditure guidelines in how the AER assesses proposed expenditure.

Other areas include:

- the role of the distribution network in facilitating the connection of utility scale renewables in front of the meter to support the emissions objective in the NEO
- what flexibility should networks be given to be able to respond to in period developments that are not possible under the current capex allocation approach
- how the scope of distribution services might need to be expanded meet consumer expectations

[48] https://www.aemc.gov.au/news-centre/media-releases/aemc-undertake-critical-review-reconsider-role-electricity-networks-transition