Consumer

Challenge

Panel

CCP32 Advice to the Australian Energy Regulator on the AusNet Services electricity distribution network AER Draft Decision & Revised Revenue Proposal (2026-31)

Consumer Challenge Panel (CCP) Sub-Panel CCP32

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Acknowledgements

Acknowledgement of Country

We acknowledge the Traditional Custodians of the various lands on which the AER operates, and where AusNet Services own and operate their networks and facilities. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

Acknowledgement of Support

CCP32 wishes to acknowledge the cooperation and support of AusNet Services and AER staff, and members of the AusNet Services Coordination Group and panels, who have generously provided information and insights to assist the sub-panel in its review of the business's Regulatory Proposal and Revised Regulatory Proposal.

Confidentiality

We advise that to the best of our knowledge this report does not present any confidential information.

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1. Introduction

Every five years, each regulated network business is required to submit a Regulatory Proposal to the AER for its electricity distribution network, setting out the network investments and revenue required to deliver electricity distribution services for the next period.

A previous Statement of Advice was provided to the Australian Energy Regulator (AER) in May 2025 from Consumer Challenge Panel sub-panel 32 (CCP32) in response to AusNet Services' 2026-31 Regulatory Proposal.[1]

This Advice builds on that Advice and specifically considers:

- AusNet Services' engagement with customers and others stakeholders since lodgement of the initial regulatory proposal on 31 January 2025
- The AER's Draft Decision, released on 30 September 2025
- AusNet Services' Revised Revenue Proposal lodged with the AER on 1 December 2025.

CCP32 reiterates its May 2025 observations that the initial revenue proposal was prepared in a time of continuing uncertainty and significant challenge. Some key factors influencing Victorian DNSP 2026-31 proposals that were not present in their 2021-26 proposals include an increased focus by communities and the Victorian Government on network resilience, and a greater emphasis on the impacts of the move to electrification, and take-up of Consumer Energy Resources (CER) by Victorian consumers. These factors are still relevant now, in what is still an active policy and regulatory environment.

This is one of five submissions that CCP32 has prepared in response to the AER's Draft Decisions, and Revised Revenue Proposals from each of the Victorian Electricity distribution businesses. In all of these reports, our focus is on the engagement activities conducted by the businesses and how these have informed and supported the Revised Revenue Proposals.

[1] AusNet's initial proposal, CCP's previous Advice, AER's Issues Paper and Draft Decision, AusNet's Revised Regulatory Proposal and various other documents and information can be found on the AER website at https://www.aer.gov.au/industry/registers/determinations/ausnet-services-determination-2026-31

2. Consumer engagement

2.1. Consumer engagement and research leading up to its initial proposal

Section 2 of the AusNet initial proposal in January 2025 covered customer engagement and research, including:

- Key points;
- AusNet's engagement approach;
- Outcomes of AusNet's engagement activities;
- Public consultation on AusNet's draft proposal and how AusNet has responded to feedback; and
- Plans for post-lodgement engagement.

It also referenced significant supporting documentation that AusNet had provided to the AER alongside the main regulatory proposal document.

AusNet Services has a public website[2] which AusNet states enables stakeholders to "find out more about the current Electricity Distribution Price Review (EDPR) and how customer and stakeholder engagement is central to its success".

Please see our previous Advice for further information and our assessment of AusNet's engagement leading up to AusNet's lodgement of its regulatory proposal on 31 January 2025.

2.2. The role of the CCP

The role of the CCP is to provide the AER with:

1. Advice on whether the long-term interests of consumers are being appropriately considered in a business's regulatory proposals and the AER's decision making, and
2. An assessment of consumer engagement and the extent to which initial and revised proposals reflect consumer preferences.[3]

In considering the consumer engagement conducted by the Victorian electricity distribution network businesses and the impact of their engagement, there have been continuing, limiting factors, as follows:

2.2.1. Late appointment of CCP32

As set out in our previous Advice, there has been limited capacity for CCP32 to observe engagement activities conducted by AusNet due to the timing of member appointment:

- In the 2023-24 financial year, CCP32 comprised only one member whose capacity to observe AusNet's engagement events was limited.
- Two additional sub-panel members were appointed, commencing in July 2024.

In contrast, AusNet began its engagement for the 2026-31 regulatory period in 2022. A co-design workshop held on 17 October 2022 helped AusNet build and develop its engagement plan. This is indicative of how early network businesses are now starting their engagement process for each five-year regulatory review.

[2] https://communityhub.ausnetservices.com.au/regulatory-reviews/edpr-2026-2031

[3] For more information on the role of CCP, see https://www.aer.gov.au/consumer-challenge-panel

Where CCP32 was not able to observe consumer engagement, we have instead relied on desktop reviews of available materials for our assessments of the effectiveness of engagement. We recognise that desktop review of materials gives a much more limited perspective as compared to actually being there "in the room" (whether the "room" is in person or online).

2.2.2. Limited time for businesses to engage on topics raised in the Draft Decisions

With Draft Decisions being released on 30 September 2025 and Revised Proposals due on 1 December 2025, there was limited time for businesses to engage on specific matters raised in Draft Decisions, and insufficient time to commence new engagement on broader topics.

2.3. AER comments in its draft decision on AusNet's consumer engagement

The AER's draft decision referenced AusNet's consumer engagement in section 1.3 (and elsewhere) in its draft decision. The AER noted the critical importance of high quality consumer engagement to development of a proposal that supports delivery of services and outcomes that reflect consumers' needs and preferences, and stated:[4]

> *Experience shows that proposals that genuinely reflect consumer preferences, and which also meet our expectations for assessing capex, opex, depreciation and tariff structure statements, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.*

The AER also noted that CCP32 had observed that AusNet's consumer engagement has met, and in many areas has exceeded the expectations we set out in our Better Resets Handbook.

Importantly, as stated in the quote above from the AER's draft decision, proposals that genuinely reflect consumer preferences also need separately to meet the AER's expectations for assessing proposals. As further stated by the AER:

> *Where consumers have been engaged on the outcomes AusNet seeks to achieve, our role is to now carefully assess the prudency and efficiency of the expenditure AusNet has submitted is necessary to deliver them.*
>
> *…*
>
> *Even where it is possible to say that its proposal is reflective of consumer views and preferences, this does not displace the AER's role in carefully testing and assessing the prudency and efficiency of proposed expenditure.*

2.4. AusNet's views on the AER's draft decision in regard to consumer engagement

AusNet provided views on the AER's draft decision in regard to consumer engagement in section 2.1 of its revised regulatory proposal:[5]

> *The AER did not comment on the overall quality of our engagement in its draft decision but noted that its Consumer Challenge Panel (CCP32) "observed that AusNet's consumer engagement has met, and in many areas has exceeded the expectations we set out in our Better Resets Handbook". Lack of engagement was cited as a reason to reject one inclusion – the Customer*

[4] AER draft decision, section 1.3 Our draft decision, Consumer engagement, page 7
[5] AusNet Revised Proposal, section 2.1 Research & Engagement, Summary, page 19

> *Service Incentive Scheme (CSIS), and the AER requested further engagement in one area – the connections tax threshold for data centres.*
>
> *Further engagement to support this Revised Proposal focused on the tax threshold for connecting data centres (initiated by the AER) along with public lighting, reliability for worst-served customers, resilience, the CSIS and digital initiatives (initiated by AusNet and/or stakeholders).*
>
> *Post-lodgement engagement re-confirmed strong support for reliability and resilience improvements, customer service and customer experience improvements, changes to public lighting (including the introduction of smart lighting and warm lighting options) and re-proposing the CSIS with amendments to address the AER's feedback wherever practical.*

AusNet further:[6]

> *… observed that the outcomes of our engagement program were not as prominently reflected in the AER's draft decision and reasoning we anticipated. Stakeholders have expressed disappointment with both AusNet and the AER, highlighting a desire for more assertive advocacy of their interests and clearer technical cases from AusNet, and greater transparency and assurance from the AER regarding how customer feedback is incorporated into its decision-making and how regulatory frameworks are adapting to meet their evolving interests.*

2.5. Engagement undertaken by AusNet since January 2025

Section 2 of AusNet's revised regulatory proposal sets out AusNet's research and engagement in this regulatory process, including engagement activities since lodgement of AusNet's initial regulatory proposal. Section 2.1 summarised:[7]

> *Over 390 hours of engagement with 16,000+ people shaped AusNet's Initial Proposal. Engagement included a Coordination Group and six customer/advocate panels, each focusing on key customer priorities (resilience, reliability, customer service, tariffs and pricing, benchmarking and opex, future networks and research and engagement design), and workshops, forums and research studies.*

Section 2.4 sets out in more detail AusNet's additional engagement underpinning its Revised Proposal:[8]

> *We have undertaken several activities to support the development of this Revised proposal, including on the one matter the AER requested we undertake further engagement on – the connections tax threshold for data centres.*
>
> *We note the very short timeframe – two months from receipt of the Draft Decision – in which we could plan, deliver and document further engagement to support this Revised Proposal. This meant we needed to engage efficiently, and only on things that would make a meaningful difference to customers and our Revised Proposal.*

[6] AusNet Revised Proposal, section 2.3 Research & Engagement, Reflecting on the AER's Draft Decision, page 21
[7] AusNet Revised Proposal, section 2.1 Research & Engagement, Summary, page 19
[8] AusNet Revised Proposal, section 2.4 Research & Engagement, Additional engagement underpinning this Revised Proposal, page 21

AusNet further set out that its Revised Proposal engagement process comprised:[9]

- 24 September 2025| Engagement with local government and the Victorian Department of Transport & Planning on changes to our public lighting proposal
- 21 October 2025 | A meeting with our Coordination Group to determine the topics and approach for the 6 November "all in" forum
- 6 November 2025 | An "all in" forum with members of our seven EDPR panels, Customer Consultative Committee and other advocates to update them on the Draft Decision, AusNet's proposed next steps in key areas, then engage on several areas where they could influence the Revised Proposal approach and that were meaningful for them and customers,
- 6 November 2025 | A second meeting of our Coordination Group to debrief on the outcomes of the "all in" forum and to provide the Coordination Group with an opportunity to discuss their independent report

CCP32 did not attend the 24 September 2025 engagement with local government and the Victorian Department of Transport & Planning, but did attend and observe the Coordination Group meetings on 21 October and 6 November, and the "all in" forum on 6 November. We also received an online briefing from the AusNet reset team on 17 December on aspects of the Revised Proposal, after the Revised Proposal had been submitted to the AER and published by the AER for stakeholder review.

In addition, AusNet stated that it has "continued to track customers' needs, expectations and priorities via our ongoing research studies – in particular via our **Energy Sentiments** and **Customer Satisfaction trackers**".[10]

We again thank AusNet for its co-operation and for working with us throughout the process, over a two and a half year period from engagement before AusNet's initial proposal was submitted to the AER up to now, proactively inviting us to attend and observe engagement, as well as briefing us and answering our questions at various stages during the process.

2.6. Coordination group views on AusNet's consumer engagement

The Coordination Group provided independent reports on both the draft proposal and the final proposal, which we summarised in our previous Advice.

We understand that the Coordination Group is providing AusNet with a report on the Revised Regulatory Proposal, but at the time of finalising this Advice to the AER we have not had sight of that report.

2.7. CCP32 views on engagement undertaken by AusNet since January 2025

AusNet's engagement on regulatory reset matters in 2025 has been limited and primarily reactive. There is limited time to engage on topics raised in the Draft Decision after its publication, but other opportunities for engagement before publication of the AER's Draft Decision may have been missed.

For example, AusNet could perhaps have productively further engaged with customers and other stakeholders before publication of the AER's Draft Decision in relation to:

- Responding to matters identified in the AER Issues Paper;

[9] AusNet Revised Proposal, section 2.4 Research & Engagement, Additional engagement underpinning this Revised Proposal, pages 21-22
[10] AusNet Revised Proposal, section 2.4 Research & Engagement, Additional engagement underpinning this Revised Proposal, page 22

- CSIS parameters, where the initial proposal presented a 'work in progress', with details to be refined in the revised proposal (though we note that AusNet did engage with its Customer Consultative Committee regarding the CSIS in this period);
- Changes in the business or regulatory environment since the initial lodgement which would lead to changes in the revised proposal e.g. current cost pass through applications;
- Responding to a submission from the Victorian Greenhouse Alliance (VGA) to the AER on the AER Issues Paper. We commend AusNet that it acted on this submission before release of the AER Draft Decision.

2.8. Transition to Business As Usual (BAU) engagement

Section 2 (Research and engagement) in AusNet's Revised Proposal does not include a section on how AusNet proposes to transition to Business As Usual (BAU) engagement.

AusNet set out on its Community Hub public website:[11]

> *Our engagement plan is a 'living' document, which outlines the engagement we will undertake on our EDPR 2026-31 program until we submit our proposal to the AER in early 2025.*
>
> *We both recognise, and support, this document changing over time, as customer and other stakeholders begin their engagement activities with us, and as environmental circumstances continue to change. Updates to this document will be shared via the EDPR 2026-31 pages on Community Hub throughout 2023, 2024 and 2025.*

Notwithstanding the statement that updates to the AusNet engagement plan would be shared throughout 2025, it was last updated in July 2024. This could however be consistent with AusNet's statement quoted above that the engagement plan outlines the engagement to be undertaken until submission of the proposal in early 2025, which would suggest that the engagement plan is now historic only and not currently applicable.

We note that AusNet maintains a Customer Consultative Committee[12] and an Innovation Advisory Committee[13] as part of its BAU engagement, and conducts ongoing research studies (e.g. C-Sat, Energy Sentiments), as well as large customer account management on an ongoing basis.

We suggest that AusNet should publish an update to the engagement plan which covers BAU engagement until a new engagement plan is published for the next (2031-36) regulatory period. This updated plan should include mechanisms to hold AusNet to account for the customer commitments it has made in its Regulatory Proposal and Revised Regulatory Proposal. We understand that the BAU Customer Consultative Committee (CCC) is responsible for holding AusNet to account throughout the regulatory period on EDPR promises, and is available to engage with AusNet on new information, policies or data.

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[11] See https://communityhub.ausnetservices.com.au/engage
[12] See https://communityhub.ausnetservices.com.au/ccc
[13] See https://communityhub.ausnetservices.com.au/forums/innovation-advisory-committee

3. Commentary on specific elements in the AER's draft decision

In this section we consider key topics identified in the AER's Draft Decision, summarising Draft Decision observations, focused engagement, Revised Proposal responses, and CCP32 observations for each topic.

3.1. Key topic: Tax on connections

3.1.1. What the AER said in its draft decision

The AER noted in section 2.6 of its Draft Decision in regard to Corporate income tax:[14]

> *Proposals from Victorian DNSPs have brought into focus the impact that the tax treatment of large customer capital contributions, paid in respect of new, large customer connections has on the revenue recovered from all consumers. We have identified a potential alternative approach drawing on our determinations for the current period. This relates to the DNSPs' proposals that net tax liability arising from capital contribution from large, embedded generators be included in connection charges payable by the generator itself. This approach was proposed to reduce the cross-subsidy paid by the wider consumer base to large, embedded generator connections and reduce exposure to forecasting risk associated with these connections. Our draft decisions encourage Victorian DNSPs to consider the possibility of extending of this model to other large connecting customers (e.g. data centres) in their revised proposals.*

The AER addressed this issue in more detail in section 16.4.1 Tax liability and data centre capital contributions of Attachment 16 on Connection policy, stating:[15]

> *After meeting with AusNet we anticipate that its connection policy regarding the tax treatment of capital contributions for large load customers will develop as part of its process to submit a revised proposal and expect AusNet to seek customer views on this issue. The question on the most suitable threshold at which to charge the tax component is integral to our final decision and will impact AusNet's final proposal related to the forecast estimated corporate income tax amount for the 2026–31 period.*

3.1.2. Relevant engagement

AusNet responded to the AER's request to seek customer views on this issue and to reflect that in its revised proposal.

AusNet noted that "the AER requested further engagement in one area – the connections tax threshold for data centres", and further engagement to support its Revised Proposal included focus "on the tax threshold for connecting data centres (initiated by the AER)".[16]

On 21 October 2025, the Coordination Group put this on the agenda for the 6 November 2025 "all in" forum with members of AusNet's seven EDPR panels, Customer Consultative Committee and other advocates, where this topic was then discussed. The key outcome as reported by AusNet was "Strong support for large connections to the sub-transmission network (incl. data centres) funding

[14] AER draft decision, section 2.6, Key components of our draft decision on revenue, Corporate income tax, pages 21-22
[15] AER draft decision, Attachment 16 – Connection policy, section 16.4.1 Tax liability and data centre capital contributions, page 4
[16] AusNet Revised proposal, section 2.1, Research & Engagement, Summary, page 19

their own tax and opex, avoiding cross-subsidisation across the broader customer base. This extended to support for all commercial customers to fund their own tax and opex associated with their connections."[17]

3.1.3. What was proposed in the Revised Regulatory Proposal

In section 5.12.7.1 of its Revised Proposal, AusNet stated:[18]

> *The AER requested that we specify a threshold for applying upfront tax liability in our Revised Proposal. In response, we propose setting this threshold at the sub-transmission level, meaning all sub-transmission connections would be subject to an upfront tax liability.*
>
> *…*
>
> *We consider the same concerns apply to incremental opex expected to be incurred to maintain connection assets associates with these customer connections. For this reason we have extended the approach to include incremental opex.*
>
> *In addition, and as foreshadowed in our response to IR#02676, we propose to amend our connection policy to enable us to seek recovery of net tax costs and incremental opex from all large load connections >1.5MW where assets are gifted to us. This includes BESS, hybrids and other large load customers who connect to the sub-transmission network and those connecting at lower voltage levels. This is due to the issues outlined above and also the additional issue that connection assets gifted by large customers constitute assessable income for tax purposes but are not able to be imputed into the PTRM, resulting in no tax cost recovery via SCS revenues. Unless this cost can be recovered directly from the connecting customer, recovery of the net tax cost would not be provided for under the regime which would violate the Revenue and Pricing Principles.*
>
> *We would welcome further discussion with the AER on this topic. We have raised it through the Q&A process in the context of significant unfunded tax costs associated with gifted assets of large connections (Type 2 contributions) and need to resolve this through this process.*
>
> *At our 'all in' Revised Proposal forum on 6 November, we engaged on which customers should be charged their tax and opex costs directly as requested by the AER. The consensus from the room was that all commercial customers should bear their own costs. This would represent a major change to the regulatory framework and would need careful consideration, so we have not proposed this approach is taken, but we consider limiting direct recovery of net tax costs and opex from sub-transmission connected customers (including BESS, hybrids and large load customers) is reasonable and consistent with customer preferences to minimise cross-subsidisation.*

3.1.4. CCP32 observations / advice

AusNet engaged with customers and other stakeholders. As discussed above, the engaged stakeholders supported that all commercial customers should fund their own tax and opex associated with their connections. AusNet states that this would represent a major change to the

[17] AusNet revised proposal, section 2.7, Research & Engagement, "All in" forum with key stakeholders, page 24
[18] AusNet revised proposal, section 5.12.7.1, Capital expenditure, Connections expenditure, Updates to connection policy, Tax and opex cost recovery from large customers, BESS and hybrids, pages 151-152

regulatory framework and would need careful consideration, so is instead proposing to limit direct recovery of net tax costs and opex to sub-transmission connected customers only.

We commend AusNet for engaging with well-informed customers and other stakeholders in the decision-making process, resulting in an outcome based on the principle that the causer of costs should fund those costs, which should be in the long-term interests of customers.

3.2. Key topic: Capital expenditure (Capex)

3.2.1. What the AER said in its draft decision

The AER summarised:[19] "We consider that AusNet has satisfied the capex expectations related to genuine consumer engagement on its capex proposal but has not satisfied the remaining expectations. In this case we have undertaken a bottom-up review in most capex categories."

The AER wrote further:[20]

> *In this draft decision we have not accepted AusNet's proposed net capex of $3,496.0 million ($2025-26) and have substituted it with an alternative estimate of $1,701.4 million (a 51.3% reduction). We have accepted prudent and efficient expenditure for a number of key projects in AusNet's proposal, including Zone Substation rebuilds. In other areas, however, AusNet's proposal did not include sufficient evidence to substantiate expenditure increases of the magnitude put forward in its capex proposal. These are AusNet's proposed replacement, augmentation, connections, information and communications technology (ICT), property and fleet, integration of Consumer Energy Resources (CER) and innovation allowance expenditures.*
>
> *In several instances we found that projects and programs had high unit costs or cost estimates that were difficult for us to substantiate based on the information provided, contained overestimated risks or did not consider the full range of options analysis that we require in developing proposals of this nature, including detailed consideration of the optimal timing of investments. These concerns are evident to varying extents across all categories of its proposed capex, including in new programs put forward to address outcomes of the Victorian government's resilience and network outage reviews and in CER and innovation allowance expenditures. They also arise in more familiar categories such as proposed replacement, augmentation, connections, ICT, property and fleet. We require AusNet to undertake further analysis and provide additional supporting information address these concerns in its revised proposal.*

One particular area that we highlight here is in regard to AusNet's accounting for risk, and in particular AusNet use of a risk allowance. The AER stated in regard to repex:[21]

> *Our main concern relates to AusNet's accounting for risk. This includes:*
>
> - *modelling inputs for specific types of risks such as unserved energy, and environment and safety, which leads to a higher than required replacement rate*
> - *AusNet's additional adjustments in cost build ups such as including a risk allowance.*

[19] AER Draft decision Attachment 2 – Capital expenditure, section 2.3 Reasons for draft decision, page 6-7
[20] AER Draft decision, Executive summary, Our draft decision, page vii-viii
[21] AER Draft decision Attachment 2 – Capital expenditure, Appendix A.1.3 – Reasons for decision on key capex categories, Replacement expenditure, Reasons for decision, page 18

The AER further explained:[22]

> *We sought out more information about the components of AusNet's unit costs and found line items that were higher than industry standard and instances where blanket additional percentage values were applied. This approach does not demonstrate efficiency, as information about how these percentage values address overlapping projects is not evident. One reoccurring factor we observed, was AusNet use of a risk allowance. The following section details why we do not accept this approach and have adjusted our alternate forecast to reflect our view.*
>
> ***Contingency risk allowances***
>
> *AusNet has applied a blanket 7–10% risk allowance and management reserve to a range of proposed capex projects to account for inherent and contingent risks. This uplift reflects that the unit rates and project cost estimates used to develop the capex forecast for bulk projects and complex projects do not include overheads, finance charges or the management reserve. The additional allowance is intended to cover 'uncertainty' associated with the project management process.*
>
> *…*
>
> *As a general principle, we only accept risk allowances in limited circumstances that are specific to a particular project or program.*
>
> *…*
>
> *We do not accept a general contingency allowance, and this is reflected in a number of recent decisions, for example, Project Energy Connect Contingent Project decision 2020, Power and Water Corporation distribution determination 2024–29 and Essential Energy Bushfire Reclassification Contingent Project decision 2025. We did not accept proposals to apply a non-specific percentage-based risk allowance across capex programs and projects.*
>
> *…*
>
> *Based on the information provided by AusNet, we do not consider that the contingency risk allowances applied broadly to various capex programs and projects are for specific risks that are reasonably likely to arise and are beyond the control of AusNet, such as environment or condition-based risks.*
>
> *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.*
>
> *…*
>
> *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.*
>
> *We do not accept AusNet's proposed $104.4 million ($2025–26) general contingency risk allowances included across various capital expenditure estimates and unit rates. AusNet should*

[22] AER Draft decision Attachment 2 – Capital expenditure, Appendix A.1.3.4 – Reasons for decision on key capex categories, Replacement expenditure, Reasons for decision, Cost Estimation, page 23-24

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.

3.2.2. Relevant engagement

At the "all in" forum on 6 November 2025, AusNet engaged stakeholders in regard to Digital customer experience capex. AusNet has reported from this forum that "The group strongly endorsed AusNet's approach to quantifying more digital customer experience benefits."[23]

AusNet did not engage on other aspects of its revised capex proposal.

3.2.3. What was proposed in the Revised Regulatory Proposal

AusNet's Revised Regulatory Proposal states that "Actual expenditure trends in the current period show that the AER's draft forecast for the 2026-31 period manifestly underestimates the efficient level of investment required to meet even current service outcomes."[24]

AusNet's non-acceptance of the AER's draft decision is strongly worded:[25]

Our assessment is that 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. Further, we will be unable to deliver the service level outcomes our customers have told us they want and are willing to pay for – including in relation to improved reliability and resilience – or deliver the energy transition in line with Victorian Government policies and objectives. In summary, the proposed cuts will directly compromise our ability to meet mandated safety and reliability outcomes – these are outcomes that our customers tell us they value the most. In addition, the cuts now will have long term impacts. Failure to invest now increases lifecycle costs and elevates risk, potentially resulting in poorer outcomes and higher costs in future period. These outcomes are not in accordance with the NEO.

Section 5 of AusNet's Revised Proposal details how AusNet has addressed each aspect of the AER's draft decision in regard to capex.

As a result, AusNet's revised capex proposal is substantially higher than the AER's Draft Decision. Its revised gross capex forecast is also higher than in its initial proposal:[26]

- AusNet's gross capex forecast is $3,864.5 million, which is $52.1 million (1.4%) higher than its Initial Proposal, and $1,860.9 million higher (92.9%) than the AER's Draft Decision.
- AusNet's net capex forecast is $3,408.1 million, which is $87.9 million (2.5%) lower than its Initial Proposal, and $1,706.7 million higher (100.3%) than the AER's Draft Decision.

AusNet has summarised its response to the AER regarding the risk allowance as follows:[27]

The AER's alternative forecast excludes risk allowance across the whole portfolio. We disagree with this and have provided additional evidence supporting the need for a risk allowance across

[23] AusNet Revised Proposal, Section 2.7 Research & Engagement, "All in" forum with key stakeholders, page 24
[24] AusNet Revised Proposal, Section 5.1, Capital expenditure, Key points, page 52
[25] AusNet Revised Proposal, Section 5.1, Capital expenditure, Key points, page 52
[26] AusNet Revised Proposal, Section 5.1, Capital expenditure, Key points, page 52
[27] AusNet Revised Proposal, Section 5.1, Capital expenditure, Key points, page 54

our network capex portfolio, to manage inherent and contingent risks that may arise during project delivery and are not accounted for in other elements of our capex estimates or revenue building blocks.

3.2.4. CCP32 observations / advice

We acknowledge that AusNet engaged stakeholders at the "all in" forum on 6 November 2025 in regard to Digital customer experience capex, AusNet's report from that forum of strong endorsement of AusNet's approach to quantifying more digital customer experience benefits.

We raise concern that AusNet's revised capex proposal is substantially higher than the AER's Draft Decision, and that its revised gross capex forecast is also higher than in its initial proposal. We expect the AER to scrutinise the revised proposed capex spend for efficiency and prudency.

While we recognise that there was not time to engage on every aspect of the Revised Proposal, we suggest that perhaps there was a missed opportunity for engagement ahead of the Revised Proposal in regard to the risk allowance, on the basis that:

- The materiality of the allowance sought by AusNet is significant.
- The AER's draft decision considered this to be a "main concern" in regard to capex.
- Risk sharing between NSPs and customers is an area where engagement can be particularly fruitful as it is an area where TLAs and other customer representatives have much experience and the principles are easily grasped (as against for example capex bottom-up analysis of unit costs where TLAs have limited if any knowledge and leave it to the AER to determine efficiency of spending).

3.3. Key topic: Resilience expenditure

Resilience is the network's ability to continue to adequately provide network services and recover those services when subjected to a disruptive event. It is generally categorised as either network resilience, the ability to withstand or respond to an outage, or community resilience, the ability to assist and support communities during an outage.[28]

3.3.1. What the AER said in its draft decision

In response to AusNet's proposal regarding resilience, the AER wrote:[29]

We are not satisfied that AusNet's proposed $260.9 million ($2025–26) for resilience capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our draft decision includes an alternative forecast of $42.3 million which is $218.6 million or 84% lower than AusNet's proposal.

In its Revised Proposal, AusNet summarised:[30]

We proposed $279.4 million in resilience-related expenditure over the 2026-31 regulatory period.

…

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[28] AER Draft Decision Attachment 2 – Capital expenditure, Appendix A.3 Resilience expenditure, September 2025

[29] AER Draft decision Attachment 2 – Capital expenditure, Appendix A.3 Resilience expenditure, AER draft decision, page 45

[30] AusNet Revised Proposal, sections 5.10.1 and 5.10.2, Capital expenditure, Resilience expenditure, Our Initial Proposal and Draft Decision, page 133

In its draft decision, the AER included $43.7 million. The AER's alternative ("allowed") resilience scope included all 25 standalone power systems, 4 emergency response vehicles and mobile generation that we proposed in our Initial Proposal. The AER's draft decision allowed for some network hardening yet fully removed the 30 community hubs that we proposed.

3.3.2. Relevant engagement

AusNet reported from the "all in" forum held on 6 November 2025:[31]

> ***Resilience (community hubs):*** *The mood of the group was summarised on the day as "Drop community hubs for the Revised Proposal but don't give up longer-term and keep the conversations going with others involved in supporting community resilience". There was consensus to remove community hubs from the Revised Proposal due to low likelihood of regulatory approval, while continuing to explore longer-term options. Participants strongly supported AusNet playing an active role in ongoing resilience planning in collaboration with local governments and community groups.*

3.3.3. What was proposed in the Revised Regulatory Proposal

AusNet accepted the AER's Draft Decision in relation to SAPS, mobile generation and emergency response vehicles. AusNet also agreed with the AER that the definition of backup power supply for community hubs is uncertain and that it potentially falls outside of standard control services. AusNet accepted the AER's decision to exclude community hubs from its revised proposal.[32]

In its Revised Proposal, AusNet is forecasting a resilience augmentation expenditure of $166.2 million over the 2026-31 regulatory period, primarily made up of network hardening ($154.0 million).[33]

In regard to network hardening, AusNet wrote in its revised proposal:[34]

> *Our Initial Proposal comprised several different types of investment associated with network resilience. The largest component ($255.8 million) related to network hardening investments to address increasing climate change risk. Network hardening consisted of undergrounding our overhead bare conductors or covering and insulating our overhead bare conductors to protect our cables from storms and bushfire risks. It also included replacing timber poles with concrete poles to protect poles from failure during bushfires, and the installation of reclosers to segment the network.*

AusNet has updated its network hardening model.[35]

> *The AER's draft decision volumes and expenditure were developed on the basis of inferring the results based on different scenario runs without running the modelling itself. For the Revised Proposal, we have updated our network hardening model to address the AER's concerns, namely*

[31] AusNet Revised Proposal, Section 2.7 Research & Engagement, "All in" forum with key stakeholders, page 24
[32] AusNet Revised Proposal, sections 5.10.3, Capital expenditure, Resilience expenditure, Addressing the AER's Draft Decision, page 134
[33] AusNet Revised Proposal, sections 5.10.4, Capital expenditure, Resilience expenditure, Revised Proposal, page 134
[34] AusNet Revised Proposal, Section 5.10.3, Capital expenditure, Resilience expenditure, Our Initial Proposal, page 133
[35] AusNet Revised Proposal, Section 5.10.3, Capital expenditure, Resilience expenditure, Addressing the AER's Draft Decision, page 134

updating the application of the Value of Network Resilience (VNR), broadening our options analysis and incorporating updated unit rates.

3.3.4. CCP32 observations / advice

The "black summer" fires in 2019-20 and the more recent major storms in June and October 2021 and in February 2024 have left consumers, governments and electricity networks all anxious about the risk of more frequent and high impact extreme weather and fire events.[36] Resilience is consequently a crucial topic for DNSPs to be actively considering and engaging on with customers and other stakeholders.

The Victorian DNSPs are to be commended for affording resilience a level of priority and for their commitment to plan together and to engage actively with consumers and stakeholders, including State and Local Governments.

Alongside measures to seek to prevent disruptions to electricity network services, the results of consumer engagement have clearly supported both recovery after a weather event and availability of clear, timely and accurate information as being crucial elements of resilience.

As quoted above, post draft decision engagement supported the position that AusNet has taken in its Revised Proposal to drop community hubs.

Regarding network hardening, the AER needs to decide the extent of capex that it is prudent to spend on "network hardening," where this comprises major capex projects.

AusNet engaged with stakeholders on resilience concerns in the lead-up to its initial regulatory proposal, and heard customer and stakeholder concerns and priorities. Its regulatory proposal was thus responsive to consumer and community priorities.

AusNet should continue to engage effectively with consumers and communities, and deliver efficiently what they have proposed to do that the AER considers to be efficient and prudent expenditure in its final decision. The "all in" forum on 6 November 2025 gave AusNet a good steer regarding what they are looking for from AusNet in ongoing resilience planning as well as longer-term goals.

3.4. Key topic: Operating expenditure (Opex)

3.4.1. What the AER said in its draft decision

The AER wrote:[37]

> *Our draft decision does not accept AusNet's proposed opex of $1,700.3 million ($2025-26), for which we have substituted an alternative estimate of $1,504.2 million (an 11.5% reduction). This difference is primarily driven by our alternative estimate not including 8 of the 11 step increases in opex AusNet proposed, for which AusNet's proposal did not include sufficient information to justify its proposed investments. These include AusNet's proposed step change for customer relationship management and broad communications. While we recognise the activities contemplated by this step change received some support during AusNet's consumer*

[36] The AusNet area has experienced 18 major storms and bushfire events since the "black summer" fires in 2019-20. Since 2019-20, the storm events in June and October 2021 and in February 2024 caused the most outages.
[37] AER draft decision, Executive summary, page viii

engagement, we consider the relatively immaterial forecast increase is captured in base year opex and trend components of total forecast opex. Our alternative estimate of total opex also includes a negative insurance step change in place of AusNet's proposed step increase, to ensure total forecast opex is prudent and efficient and to treat the significant insurance premium underspends as non-recurrent efficiency gains.

3.4.2. Relevant engagement

AusNet reported from the AusNet "all in" forum on 6 Nov 2025:[38]

> **Customer experience opex (communications and relationship managers):** The mood of the group was summarised on the day as *"There's support for proposing the customer experience opex step change (communications & relationship managers) with a narrower scope but with an expectation that AusNet provides more detailed supporting information to the AER than was provided in the session, beefing up and selling the benefits to customers better"*. There was unanimous support for narrowing the scope of the proposed step change, focusing on tariff communications. The vast majority of the group continued to see value in relationship manager roles but a small number thought AusNet should accept the AER's decision to reject it. Participants agreed clearer justification and evidence of customer benefits is needed in the Revised Proposal.

3.4.3. What was proposed in the Revised Regulatory Proposal

AusNet is proposing operating and maintenance expenditure (opex) excluding debt-raising costs of $1,606 million for SCS in the 2026-31 regulatory period.

- 8% higher than that proposed in the AER's draft decision; and
- 5% lower than that proposed in the Regulatory Proposal.[39]

AusNet accepted aspects of the AER's draft decision, including the AER's alternative estimates for:

- Innovation fund allowance
- Adjustments to base year opex 2022-23
- Circuit length growth
- The emergency backstop mechanism step change.[40]

AusNet provided additional information to address the AER's concerns on step changes relating to flexible services and non-network solutions, Digital, Early fault detection and Hazard tree program.[41]

AusNet stated that new information has led to additional step change proposals for three new regulatory requirements that have developed since the Draft Decision, being the rule change for Distribution Strategic Planning requirements, Corporations Act 2001 new sustainability reporting compliance and flexible trading arrangements.[42]

[38] AusNet revised proposal, Section 2.7 Research & Engagement, "All in" forum with key stakeholders, page 24
[39] AusNet revised proposal, section 6.1 Operating Expenditure Key points, page 180
[40] AusNet revised proposal, section 6.1 Operating Expenditure Key points, page 180
[41] AusNet revised proposal, section 6.1 Operating Expenditure Key points, page 180
[42] AusNet revised proposal, section 6.1 Operating Expenditure Key points, page 180

Previously a step change in the initial proposal, CRM and Communications is included as a category specific forecast for the Revised Proposal.[43]

See also section 4.2 below regarding the AER's draft decision to include a negative insurance step change in place of AusNet's proposed step increase.

3.4.4. CCP32 observations / advice

We expect the AER to scrutinise the revised proposed opex spend for efficiency and prudency.

We expect this scrutiny to include (inter alia):

- Additional step change proposals for three new regulatory requirements that have developed since the Draft Decision; and
- Consideration of AusNet re-categorisation of Customer relationship management and broad communications from a step change (regarding which the AER considered the proposed activities to be a discretionary expansion of business-as-usual functions and noted that the forecast increase was relatively immaterial and could be accommodated within base opex and trend) to a category specific forecast.

3.5. Key topic: Tariff Structure Statements (TSS)

3.5.1. What the AER said in its draft decision

The AER's draft decision set out:[44]

> *AusNet's proposed TSS makes some progress on sending cost reflective price signals through retailers to shift usage out of peak times and into low-cost periods of the day. This includes proposing a solar soak (very low priced) period in the middle of the day for residential consumers, to extend critical peak demand tariffs for its medium and large business consumers, and individually calculated tariffs with locational price signals for large consumers. However, AusNet assumed limited consumer response to its small customer tariffs in its demand forecasts (other than those implicit through AusNet's use of historical trends and the Australian Energy Market Operator's (AEMO) electric vehicle charging forecasts). We are therefore not convinced that AusNet has done all it can to utilise tariffs to encourage efficient use of the network.*
>
> *It is imperative for AusNet to use all the levers available to it, particularly tariffs, to optimise network utilisation. We consider that AusNet should engage further with stakeholders, including with retailers, to encourage take up of cost reflective tariffs and improve understanding of how tariff reform can complement (or mitigate) its proposed expenditure. It should also continue tariff trials aimed at managing flexible load and improve its long-run marginal cost calculations.*

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[43] See AusNet revised proposal, section 6.7.2.2.6 Operating Expenditure, Step changes, Draft Decision, Step changes requiring further justification, Customer relationship management and broad communications; 6.7.3.3.3 Operating Expenditure, Step changes, Revised Proposal, Prudent and efficient costs that cannot be absorbed, Customer relationship managers and communications; and section 6.8 Operating Expenditure Category specific forecasts, Revised Proposal, Customer engagement and communications programs

[44] AER Draft Decision, Executive summary, page viii

3.5.2. Relevant engagement

AusNet has further engaged with stakeholders regarding tariff communications. The Coordination Group was given the opportunity to prioritise tariffs and pricing (including CER tariffs) for consideration at the "all in" forum on 6 November 2025, but preferred to prioritise other topics.

3.5.3. What was proposed in the Revised Regulatory Proposal

AusNet responded in its Revised Proposal:[45]

> *We have responded to the feedback in the AER's Draft Decision, including additional information provision on customer impacts and extending the calculation period for Long Run Marginal Cost from 5 to 10 years. We have made the following changes in our Revised Proposal:*
>
> - *Increased the value of the export reward provided in the CER tariff*
> - *Added a kerbside EV charging tariff trial; and*
> - *Introduced new site-specific and locational tariffs for very large customers.*

In section 6.7.3.3.3 – Customer relationship managers and communications, AusNet sets out:[46]

> *We also propose a more targeted communication program, focused 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.*
>
> *…*
>
> *The fact that cost-reflective tariffs exist does not lead to higher network utilisation – the response to tariffs does. Our communications proposal directly addresses the current gap in customer awareness of and engagement with pricing signals, which is limiting the effectiveness of tariff signals today. … Targeted communications are needed to explore whether lifting awareness and understanding results in widespread behaviour changes. Only then can customers respond to pricing signals. This is consistent with the AER's and government expectations for DNSPs and we received support from our stakeholders in our November 2025 "all-in" engagement session.*
>
> *It is important to note that we do not expect tariff campaigns to be self-funding, as the benefits flow directly to customers and any capex savings would not be realised until subsequent regulatory periods. Therefore, unless a specific allowance is approved for this activity, we will not deliver tariff campaigns in the next regulatory period.*

3.5.4. CCP32 observations / advice

The AER stated in its draft decision that "AusNet should engage further with stakeholders, including with retailers, to encourage take up of cost reflective tariffs and improve understanding".[47]

We encourage that engagement to continue not just with customers as set out in AusNet's step change request but also with retailers. We leave it to the AER to determine if the step change

[45] AusNet Revised Proposal, section 1.3.5.5 Executive summary, Overview, Key features of our Revised Proposal, Tariffs, page 16
[46] AusNet Revised Proposal, section 6.7.3.3.3, Operating Expenditure, Step changes, Revised Proposal, Prudent and efficient costs that cannot be absorbed, Customer relationship managers and communications, page 203
[47] AER Draft Decision, Executive summary, page viii

request, which AusNet is proposing as a category-specific forecast, meets the requirements for a step change and is prudent and efficient.

AusNet's proposed step change for Customer relationship managers and communications covers much more than just engagement on tariffs. AusNet does undertake stakeholder engagement and research as business as usual (BAU) activities. If the AER decides not to accept the full extent of AusNet's requested additional funding for Customer relationship managers and communications, perhaps the AER can guide AusNet on what tariff-related engagement might be prioritised in future BAU activities.

More broadly, we note that all five Victorian electricity distribution businesses proposed tariff information campaigns in the next regulatory period, some of which were intended to be funded through opex step changes, and none of which was accepted in the AER's Draft Decisions. We suggest that a joint campaign in conjunction with retailers and with the Victorian Government could be a more cost-effective option for a broad state-wide information campaign.

3.6. Key topic: Public lighting

Public lighting services include the provision, construction and maintenance of public lighting assets. This includes technologies such as energy-efficient light emitting diode (LED) luminaires and emerging public lighting technologies such as smart-enabled luminaires.[48]

3.6.1. What the AER said in its draft decision

The AER wrote in its draft decision in regard to public lighting:[49]

> *Our draft decision is to not accept AusNet's public lighting proposal, although we consider it is largely reasonable. For the draft decision we have made several updates to the public lighting model inputs, including to increase the photo electric cell replacement cycles and for more mechanical changes related to updated inflation and labour escalators inputs. This results in prices for 2026–27 that are on average 2.2% lower in the Central region and 2.1% lower in the North and East regions when compared to AusNet's proposal.*
>
> *We encourage AusNet to consult further with its stakeholders to inform its revised proposal. This consultation should include matters such as an accelerated LED rollout, smart lighting services and funding options for this rollout. These issues reflect those raised in a submission to our issues paper from the Victorian Greenhouse Alliances.*
>
> *The reasoning behind our draft decision is outlined in further detail in Attachment 14.*

3.6.2. Relevant engagement

On 24 September 2025, AusNet engaged with local government and the Victorian Department of Transport & Planning on changes to its public lighting proposal, following feedback received via a public submission to the AER on its initial Proposal. AusNet engaged via an online forum and survey of all local governments in its distribution area.

More detail on this engagement is provided in AusNet's Revised Proposal in section 2.5 – Public lighting engagement with local councils, and in attachments referenced in section 2.8 of the Revised Proposal (one of which we have not sighted as it is classified as confidential by AusNet).

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[48] AER draft decision, Network pricing, Alternative control services, Public lighting, section 4.3.1, page 32
[49] AER draft decision, Network pricing, Alternative control services, Public lighting, section 4.3.1, page 32

3.6.3. What was proposed in the Revised Regulatory Proposal

AusNet sets out its Revised Proposal in regard to public lighting in section 14 – Alternative Control Service: Public lighting. This takes into account the relevant engagement that it has undertaken in response to stakeholder submissions and the AER response to AusNet's initial proposal.

3.6.4. CCP32 observations / advice

Without having examined the details of this matter, we understand that that AusNet's collaborative approach to engagement on these issues has led to a Revised Revenue Proposal which better meets the needs of customers, and therefore is supported by CCP32 as being responsive to customer preferences and expectations.

3.7. Key topic: Metering services

Metering services include maintenance, reading, data services, and the recovery of capex related to metering assets. Unlike other jurisdictions in the NEM, Victorian DNSPs are the monopoly providers of most metering services to small customers. This includes smart meters which are a part of regulated alternative control services.[50]

3.7.1. What the AER said in its draft decision

The AER wrote in its draft decision in regard to metering services:[51]

> *Our draft decision is not to accept AusNet's metering proposal. For the draft decision we have made several adjustments to the forecast capex. This includes lower labour costs associated with the proactive replacement of meters approaching end of life, reflecting the greater efficiency opportunities we think are available. We have also removed components of the proposed IT capex that we do not consider are justified, revised the allocations of capex to SCS and made more mechanical changes related to updated inflation, rate of return and labour escalators inputs. Overall, this results in a decrease of $8.3 million ($nominal) or 3.7% from AusNet's proposed total revenue requirement for metering of $221.3 million ($nominal, smoothed) for the 2026–31 period.*
>
> *We encourage AusNet to consider the metering adjustments that we have made in this draft decision and respond to these in its revised proposal and to incorporate the outcomes of any further stakeholder engagement it undertakes.*
>
> *The reasoning behind our draft decision is outlined further detail in Attachment 15.*

3.7.2. Relevant engagement

None of which we are aware

[50] AER draft decision, Network pricing, Alternative control services, Metering services, section 4.3.2, page 32
[51] AER draft decision, Network pricing, Alternative control services, Metering services, section 4.3.2, page 32

3.7.3. What was proposed in the Revised Regulatory Proposal

AusNet wrote in its Revised Proposal:[52]

> *We accept the AER's Draft Decision on metering with adjustments for updated connection forecasts and labour escalation rates. We expect the AER to update metering revenues for changes in market parameters including interest rates and inflation prior to the Final Decision.*

3.7.4. CCP32 observations / advice

CCP32 supports AusNet's acceptance of the AER's draft decision in regard to metering services.

3.8. Key topic: Innovation Allowance

3.8.1. What the AER said in its draft decision

In its draft decision, the AER stated its view that AusNet's proposal did not include sufficient evidence to substantiate expenditure increases of the magnitude put forward in its capex and opex proposals. These included AusNet's proposed innovation allowance expenditure.[53]

3.8.2. Relevant engagement

None of which we are aware

3.8.3. What was proposed in the Revised Regulatory Proposal

In its Revised Proposal, AusNet accepted the AER's draft decision with respect to the innovation allowance.[54]

3.8.4. CCP32 observations / advice

We note that AusNet has chosen to accept AusNet's draft decision in regard to the innovation allowance.

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[52] AusNet revised proposal, section 1.3.5.7 – Executive summary, Overview, Key features of our Revised Proposal, Metering, page 16

[53] AER draft decision page vii; and Attachment 2 Appendix A.9

[54] AusNet revised proposal, section 6.3.3, Operating Expenditure, Introduction, Revised Proposal, page 182

4. Generic topics

This section addresses topics that are generic across all Victorian electricity distribution businesses. Though there is some customisation for each business, much of the text here is common across the CCP32 submissions for all five businesses.

4.1. Customer Service Incentive Scheme (CSIS) / Service Target Performance Incentive Scheme (STPIS)

All five Victorian distribution network service providers (DNSPs) proposed application of a Customer Service Incentive Scheme (CSIS) in their Regulatory Proposals.

4.1.1. What the AER said in its draft decision

The AER Draft Decisions did not accept any of the DNSPs' CSIS proposals and instead applied the customer service (telephone answering and new connections) parameters of the Service Target Performance Incentive Scheme (STPIS) version 2.0. The Draft Decisions include a claim that customers are willing to pay for the improved services relating to new connections.[55]

The reasons for non-acceptance of the proposals varied between the businesses. The relevant reasons for AusNet were as follows:

AusNet Services

- The lack of baseline data and targets.
- The proposal to apply a +/-1% revenue at risk.
- The potential risk of interrelationship with the STPIS.

The Draft Decision also required AusNet to engage widely on its 2026-31 CSIS performance targets at the revised proposal stage, to ensure that targets were sufficiently challenging and reflected the value customers placed on the different parameters.

The Draft Decisions also included the following statements:

> *After 5 years of scheme operation, we have observed that performance parameters proposed by DNSPs across different geographic areas are coalescing around similar parameters, trending towards those utilised in existing approved schemes. We have also observed that DNSPs have proposed only modest changes to their CSIS parameters from the previous regulatory period, and that the development of these parameters has been informed by limited customer engagement, resulting in concerns that DNSPs may not be investing heavily in customer co-design and that proposals therefore may not genuinely reflect customer preferences. Recently, CSIS proposals have tended to lack completeness and have been limited in scope and stakeholders and consumer groups have raised questions as to whether DNSPs performance targets are appropriately challenging.*
>
> …
>
> *The recent scheme history, the limited nature of the Victorian CSIS proposals, and the need to continually review the effectiveness and costs of the regulatory systems that we oversee have led*

[55] For AusNet, see AER Draft Decision, Attachment 9 Customer Services Incentive Scheme, page 6

us to consider the potential benefits of streamlining customer service incentives, penalties and reporting under the STPIS. We consider that as customer service incentive schemes are becoming increasingly homogenised, static, and informed by diminished customer engagement, formalising customer service incentive parameters under the STPIS could be a better outcome for consumers. As a result, distributors could be incentivised to deliver better quality customer service performance at a lower cost and reduced administrative burden. Unifying customer service incentives and penalties under the STPIS may also lead to more stable data collection process and avoid the scheme integrity issues that have be impacted the CSIS.[56]

4.1.2. Relevant engagement

AusNet discussed the CSIS with stakeholders at the "all in" forum with key stakeholders on 6 November 2025. AusNet reported that: [57]

The mood of the group was summarised on the day as "… Repropose the CSIS and note the AER hasn't provided any evidence that their alternative STPIS-based program is better-aligned with customers' interests". ... The group also supported AusNet re-proposing the original CSIS proposal using baseline data, acknowledging AusNet cannot address all of the AER's concerns. The group did not feel the AER's STPIS-based alternative to the CSIS was better-aligned with customers' interests and felt very strongly about AusNet re-proposing the original co-designed scheme. It was suggested that AusNet propose delaying the start of the CSIS scheme to address the AER's desire for more baseline data before it commences.

Besides the "all in" forum, we are not aware of any engagement with end-use customers following the Draft Decision, though AusNet did engage with its Customer Consultative Committee in regard to CSIS in the initial proposal to draft decision period.

4.1.3. What was proposed in the Revised Regulatory Proposal

AusNet re-proposed a Customer Service Incentive Scheme (CSIS), with a lower revenue at risk (0.5% instead of 1%).[58]

We have re-proposed a Customer Service Incentive Scheme (CSIS), with a lower revenue at risk (0.5% instead of 1%). We have carefully considered and addressed the issues the AER raised in the Draft Decision. We have also heard very strong customer sentiment that the alternative metrics for telephone answering and connections timeframes are too narrow and do not reflect current customer expectations. Our CSIS is based on four customer satisfaction parameters: planned outage satisfaction, unplanned outage satisfaction, new connections satisfaction, and first call resolution, and was developed through extensive customer engagement to target outcomes that matter most to customers.

AusNet did not accept accepted the AER's introduction of the new connections parameter of the STPIS, based on the fact that the STPIS parameter would not apply to the majority of new connections i.e. residential and small business connections, as the parameter only applies to SCS connections.

Section 11.3 of AusNet's revised proposal provides an overview of its CSIS proposal.

[56] For AusNet, see AER Draft Decision, Attachment 9 Customer Services Incentive Scheme, page 5
[57] AusNet Revised Proposal, section 2.7 "All in" forum with key stakeholders, page 24
[58] AusNet Revised Proposal, section 1.3.5.3 Incentive schemes, Customer Satisfaction Incentive Scheme (CSIS), page 15

4.1.4. CCP32 observations / advice

Timing of feedback

Design and implementation of a compliant CSIS scheme is a lengthy and complex undertaking, requiring significant and targeted engagement with end use customers. CCP32 agrees with the businesses that the time between the Draft Decision and lodgement of the Revised Revenue Proposal is insufficient to design, conduct and assess a meaningful broad engagement program. We question whether it would have been possible for the AER to flag CSIS engagement concerns earlier with the businesses to afford them the opportunity to address perceived engagement deficiencies in parallel with the formal Draft Decision. We suggest that a 'check-in' process in mid-2025 may have highlighted these issues. The 'Structured Engagement Pathway' check-ins conducted in the latter half of 2024 based on the Better Resets Handbook do not address incentive schemes, so would not have helped in this situation.

New connections parameter

CCP32 understands that when the AER substituted the STPIS new connections parameter for CSIS parameters in the Draft Decision, it did not intend that the measure be applied to large connections only. This restriction under the regulatory framework means performance against the new connections parameter would have little relevance for the vast majority of customers.

Further, we challenge the AER's justification supporting this substitution in the Draft Decisions that says 'customers are willing to pay for the improved services relating to new connections'. CCP32 questions the research or structured engagement that supports this statement, particularly given the AER's concerns about lack of engagement on customer service measures for several of the businesses. It is even more surprising if this statement implies that residential and small business customers are willing to pay for improved connection times for large customers.

CCP32 advises that the new connections parameter in its current form should be withdrawn.

Future of the CSIS

Comments made in the AER Draft Decisions and reproduced above call into question the future of the CSIS. The comments reflect a view that the CSIS may not be achieving its intended objectives and may not be cost-effective, and customers may be better served by extension of the long-standing STPIS to incorporate more customer service measures.

CCP32 recommends that the AER clarifies its intentions with respect to the future of the CSIS so that businesses can tailor their business initiatives and engagement plans appropriately.

4.2. Efficiency Benefit Sharing Scheme (EBS) in regard to insurance

4.2.1. What the AER said in its draft decision

In the AER's final decisions for the 2021-26 Victorian DNSP Regulatory Proposals, an opex step change for forecast increased expenditure on insurance premiums was approved for four of the five businesses (which included AusNet). However, the forecast increases did not eventuate, leading to significant underspends on insurance premiums during the period. AusNet Services reported that this was due to changes in market conditions.[59]

The AER Draft Decisions consider that this underspend impacts on the operation of the EBSS in that it does not lead to a fair sharing of efficiency gains or losses between the businesses and their

[59] AusNet initial proposal, January 2025, page 262

customers under the EBSS. To compensate, the AER made adjustments to opex forecasts using a negative step change mechanism.[60] This has resulted in reductions in forecast opex allowances which in the case of AusNet Services amounts to $58.1 million.

4.2.2. Relevant engagement

AusNet briefed the Coordination Group on this matter.

4.2.3. What was proposed in the Revised Regulatory Proposal

The businesses have strongly objected to these decisions, which they refer to as 'ex-post clawbacks'. The four affected DNSPs, which include AusNet, jointly obtained legal advice and a consultant's report to support their challenge to the validity of the AER's Draft Decision.

4.2.4. CCP32 observations / advice

CCP32 is not qualified to address the legal and regulatory issues associated with the AER's draft decision on this matter. Our concern is not whether the AER can attempt to 'claw back' the potential revenue windfall, but rather whether it should from a customer perspective.

Our understanding is that the objective of the EBSS, and incentive regulation more generally, is to share genuine business efficiency gains between a business and its customers. The question for CCP32 is whether the insurance premium underspend is actually a windfall gain, or is a result of management efficiency initiatives. We see no reason for a business to be entitled to retain windfall gains, and agree they should be passed back to customers.

The initial Regulatory Proposals from the businesses were silent on the drivers for the insurance premium underspends, apart from the AusNet Proposal which refers to 'changes in market conditions' which could imply factors outside the control of the business, therefore a windfall gain to be returned to customers.

In their Revised Revenue Proposals, the businesses have included information about management efficiency initiatives which they claim to have been instrumental in achieving the insurance premium reductions. While some high-level commentary is provided by Powercor and United Energy, further details and information provided by the other businesses is heavily redacted. The consultant report by HoustonKemp contains a section on p. 28 titled 'Insurance underspends were likely impacted by efficient cost management'. However, the remainder of the section is redacted. Similarly, the supporting reports from Insurance Brokers are confidential.

With the level of confidentiality applied to information relating to the insurance premiums, it is impossible for customers and other stakeholders to understand or form an opinion on the extent to which management actions have played a role in achieving the significant insurance premium underspends, and whether they deserve to be rewarded under the EBSS. In the interest of transparency, CCP32 advises the AER to provide publicly available information on its assessment of the extent to which management actions led to the reductions in insurance premiums. From a customer perspective, this will clarify whether the underspending should be 'clawed back', or alternatively the gains should be shared between the business and its customers.

[60] For AusNet see AER draft decision, Executive summary, page viii and Attachment 3 section 3.3.4.12, Operating expenditure, Reasons for draft decision, Step changes, Insurance negative step change, pages 32-34