

Consumer

Challenge

Panel

CCP32 Advice to the Australian Energy Regulator on the AER Draft Decision & 2026-31 Revised Revenue Proposal for Jemena Electricity Distribution Network

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 National Electricity Market operates, and where Victorian electricity distribution network businesses own and operate their networks and facilities. We honour the customs and traditions and special relationship of Traditional Custodians with their land. We respect the elders of these nations, past, present and emerging.

Acknowledgement of Support

CCP32 wishes to acknowledge the cooperation and support of Jemena and AER staff who have generously provided information and insights to assist the sub-panel in its review of the AER's Draft Decision and the business's Revised Revenue 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, regulated electricity distribution network businesses are required to submit a Regulatory Proposal to the AER setting out the network investments and revenue required to deliver electricity distribution services for the next period.

A Statement of Advice was provided to the Australian Energy Regulator (AER) by Consumer Challenge Panel, sub-panel 32 (CCP32) in response to Jemena Electricity Network (JEN)'s 2026-31 Regulatory Proposal in May 2025¹. This report builds on that Advice and specifically considers:

- The AER's Draft Decision, released on 30th September 2025
- The Revised Revenue Proposal lodged with the AER on 1st December 2025
- Engagement with consumers and other stakeholders between lodgement of the initial Revenue Proposal on 31st January 2025 and lodgement of the Revised Revenue Proposal in December.

CCP32 reiterate our May 2025 observations that this Revised Revenue Proposal has been prepared in a time of continuing uncertainty and significant challenge. Some key factors influencing the Victorian electricity distribution networks' 2026-31 Revenue Proposals that were not present in their 2021-26 Proposals include an increased focus by communities and the Victorian Government on network resilience, a greater emphasis on the impacts of the move to electrification and consumer energy resources (CER) by Victorian consumers, and an active and changing policy and regulatory environment.

This is one of five reports that CCP32 has prepared in response to 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.

Notes:

All financial information in this report is presented in real 2025-26 dollars, unless otherwise stated.

2. Limits to CCP role

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.

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. Factors described in our May 2025 Advice include:

¹ <https://www.aer.gov.au/documents/ccp32-submission-jemena-electricity-distribution-proposal-2026-31-may-2025>

1. Late Appointment of CCP

For CCP subpanel 32 (CCP32) there was very limited capacity to observe engagement activities conducted by JEN prior to lodgement of the initial Revenue Proposal due to the timing of member appointment.

In addition,

2. Limited ability to observe engagement

CCP32 notes that there were limited opportunities for us to observe engagement undertaken by some businesses throughout 2025.

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

With Draft Decisions being released at the end of September and Revised Proposals due by the 1st December, 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.

3. Engagement undertaken during 2025

To inform their Revised Revenue Proposal, JEN has reported undertaking the following engagement with customers and other stakeholders since lodgement of the initial Revenue Proposal in January 2025.

3.1 Energy Reference Group

As outlined in the table below, JEN met with their expert advisory panel, the Energy Reference Group (ERG) on five occasions during 2025².

Meetings with JEN ERG

Date	Purpose	Assessed IAP2 Level
26/02/2025*	Briefing on the initial Revenue Proposal	Inform
30/04/2025*	Briefing on the AER Issues Paper. Planning ERG submission to the AER on the Issues Paper	Inform
11/07/2025	To consider the question raised by the AER as to who should cover the tax cost for new large connections.	Involve
15/10/2025*	Briefing on AER Draft Decision and JEN's initial response strategies. Identification of key issues for ERG's submission to the AER	Inform
12/11/2025*	JEN briefing on final positions for Revised proposal, covering issues highlighted by ERG for their submission	Inform

Engagement observed by CCP32 is marked *

3.2 Victorian Greenhouse Alliance

Following encouragement by the AER, JEN engaged with the Victorian Greenhouse Alliance (VGA) between September 2025 and November 2025 in a series of meetings and email exchanges³. JEN collaborated with the VGA which represents councils within JEN's service area to resolve two significant public lighting issues about which VGA had raised concerns in its submission to the AER Issues Paper in May 2025⁴. CCP32 did not observe this engagement.

3.3 Jemena Electricity Customer Council

JEN note that they presented the AER's Draft Decision to the JEN Customer Council.⁵ CCP32 did not observe this discussion.

3.4 Other Customer and Stakeholder Groups

CCP32 is not aware of engagement with any other customer or stakeholder groups in this timeframe.

3.5 Observations on Engagement in 2025

JEN's engagement on regulatory reset matters in 2025 has been limited and primarily reactive. Although this can partly be ascribed to the limited time to engage on topics raised in the Draft Decisions as described in Section 2, other opportunities for engagement during this period may have been missed.

² <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p.13

³ <https://www.aer.gov.au/documents/jen-rp-att-11-01-alternative-control-services-december-2025>, Table 2-1

⁴ <https://www.aer.gov.au/documents/victorian-greenhouse-alliances-submission-victorian-electricity-distribution-proposals-2026-31-may-2025-1>

⁵ <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. viii

For example, the business could have productively further engaged with customers and other stakeholders in relation to:

- Issues where the initial proposal presented a 'work in progress', with details to be refined in the revised proposal eg CSIS parameters
- Responding to matters identified in the AER Issues Paper
- Responding to formal submissions from customers and other stakeholders on the AER Issues Paper eg the submission from the Victorian Greenhouse Alliance
- Changes in the business or regulatory environment since the initial lodgement which would lead to changes in the revised proposal eg current cost pass through applications.

It appears to us that the businesses have relied on directions and prompts from the AER to determine their post lodgement engagement activities.

3.6 Transition to BAU engagement

Jemena's ERG has been a source of insights, advice and challenge to the business for the duration of the reset engagement program, however CCP32 are unaware of an ongoing role for the ERG.

CCP32 understand that Jemena has a well-established business-as-usual Customer Council. Included among Customer Council members are previous participants in Jemena's People's Panels, as well as two individuals who have been members of the ERG. Jemena anticipates that its Customer Council will be well equipped to hold Jemena to account for the customer commitments it has made in its Regulatory Proposal.

4. Key topics from the AER Draft Decision and Revised Revenue Proposal

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

4.1 Key topic: Tax on connections

4.1.1 What the AER said

In July 2025 the AER asked whether the current practice of recovering tax from connecting data centres across the broader customer base should continue. The AER enquired whether JEN had consulted on the tax treatment of capital contributions for data centres (and large customers) in developing its regulatory proposal. It encouraged it to do so if it had not.⁶

In the Draft Decision, following JEN's initial engagement on this topic with the ERG, the AER documented an expectation:

"that Jemena will amend its proposed connection policy in the revised proposal to remove what is an effective cross subsidy of tax costs associated with capital contributions from connecting data centres and other large load customers. This change would mean that the net tax liability from these connections would be added to the

⁶ <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. 13

capital contribution amount paid by the connecting customer for the 2026–31 period. The net tax liability would, therefore, be borne by the connecting customer rather than the broader SCS customer base”⁷.

4.1.2 Relevant Engagement

Prompted by the AER Information Request, JEN convened a meeting of the ERG to consider the question and provide feedback in July 2025. JEN coordinated a considered response to the AER which reported the ERG’s view that:

- *the connecting customer should cover the tax cost proportionate to their specific connection request and the benefits they receive*
- *this arrangement should apply to data centres and other large customers, limited to the connection component of the contract⁸.*

CCP32 did not observe this engagement. We only became aware of the meeting following publication of the Revised revenue Proposal.

In October 2025, the ERG reviewed the AER’s Draft Decision on this matter and made no further comment.

4.1.3 What was proposed in the RRP

JEN applied its new Connection Policy in the Revised Revenue Proposal, resulting in tax on capital contributions in future being recovered directly from connecting customers, rather than through the building block revenue allowance.⁹

4.1.4 CCP32 observations/advice

This exercise was a good example of where the involvement of a group of well-informed customers and other stakeholders in the decision-making process directly resulted in an outcome which is in the long-term interests of consumers.

CCP32 supports the ‘causer pays’ principle inherent in the advice provided by the ERG.

4.2 Key topic: Resilience Expenditure

4.2.1 What the AER said in the DD

The AER Draft Decision did not accept the major component of JEN’s proposed network resilience capital expenditure which was the relocation of network assets in high-flood risk zones, estimated to cost \$18.4 million in the 2026-31 period.

In their initial Revenue Proposal, JEN argued that this expenditure should be treated as ‘modelled repex’ rather than resilience expenditure.¹⁰ The AER Draft Decision did not accept this categorisation, determining that the expenditure should be assessed as

⁷ <https://www.aer.gov.au/documents/aer-attachment-1-annual-revenue-requirement-draft-decision-jemena-distribution-determination-2026-31-september-2025>, p. 38

⁸ JEN, Engagement on JEN’s Connection Policy – Report, July 2025, p. 11

⁹ <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. 52

¹⁰ <https://www.aer.gov.au/documents/jen-att-05-01-capital-expenditure-20250211>, p. 118

network resilience expenditure, and as a result the AER concluded that JEN did not fully satisfy the network resilience guidance note criteria¹¹.

The AER found that JEN had partly satisfied the criterion for ‘Genuine customer engagement’ as per the network resilience guidance note, noting that JEN had engaged with its People’s Panel seeking feedback on customer preferences for network resilience options, but it was unclear whether JEN had sought feedback in other consumer forums. The AER implied that further engagement would be necessary to fully meet the criterion. In addition, the proposal had not satisfied the criteria for ‘Identified Need’ or ‘Testing of the preferred option’.

4.2.2 Relevant Engagement

JEN did not undertake further engagement with customers regarding network resilience because they elected not to pursue the project to relocate assets in high flood-risk areas in the next regulatory period¹².

4.2.3 What was proposed in the RRP

JEN did not include the network resilience project in the Revised Revenue Proposal, stating that the limited time between the Draft Decision and submission of the Revised Revenue Proposal did not allow sufficient time for them to meet the requirements of the network resilience guidance note ie development of a risk assessment model, options analysis, historical flood data review, and climate modelling.

4.2.4 CCP32 observations/advice

CCP32 observed strong support from customers for the proposal to relocate assets in high flood-risk areas during People’s Panel discussions and the follow-on deep dive into network resilience. We also noted support for the proposed network resilience expenditure in customer and stakeholder responses to the Draft Plan¹³.

It is therefore disappointing that the expressed customer preference for a specific network resilience initiative will not be met, seemingly due to different views on how the expenditure should be categorised and assessed regarding prudence and efficiency.

CCP32 agree with JEN’s assessment that there was not sufficient time post the Draft Decision to develop a fully compliant network resilience proposal. This difference of views does not appear to have been recognised in either JEN’s ‘Structured Engagement Pathway’ check-in with the AER in October 2024, or in the AER’s Issues Paper. We question whether adoption of a structured feedback approach several months prior to publication of the Draft Decision may have allowed the difference of views between the AER and JEN to be addressed earlier, affording JEN sufficient opportunity to develop a compliant proposal to meet customer preferences.

¹¹ <https://www.aer.gov.au/documents/aer-attachment-2-capital-expenditure-draft-decision-jemena-distribution-determination-2026-31-september-2025>, p. 24

¹² <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. 11

¹³ <https://www.aer.gov.au/documents/ccp32-submission-jemena-electricity-distribution-proposal-2026-31-may-2025>, p. 20,21

4.3 Key topic: Tariff Structure Statement

4.3.1 What the AER said in the DD

The Draft Decision did not approve JEN's proposed 2026–31 tariff structure statement (TSS). It identified several technical issues that required amendment by JEN to deliver a compliant TSS. It noted that JEN had proposed tariffs that make some progress on network tariff reform. However, the AER's overriding concern appears to be that despite having near-universal smart meter penetration in Victoria since 2013, the proportion of consumers in Victoria on cost reflective pricing is low compared to other jurisdictions in the NEM¹⁴. The AER acknowledged that the Victorian Government does not support the mandatory assignment of small customers to cost reflective tariffs and that this can act as a constraint to achieving a faster rollout. The AER urged JEN to engage further with stakeholders, including with retailers and the Victorian Government, to encourage take up of cost reflective tariffs and improve understanding of how tariff reform can complement (mitigate) its proposed expenditure.

4.3.2 Relevant Engagement

JEN briefed the ERG on the Draft Decision and plans for the Revised Proposal in October and November 2025. The ERG remains supportive of moving to cost reflective tariffs and removing cross subsidies between different classes of customers. On a pragmatic level, the ERG did not press JEN to do more in the Revised Proposal, with one ERG member commenting 'The policy maker has a different view to the AER'.

Although engagement on tariff structures had been conducted jointly by the Victorian electricity distribution businesses in the lead up to lodgement of the initial Proposals, no further joint engagement was conducted following the Draft Decisions.

4.3.3 What was proposed in the RRP

Given the views of the Victorian government, introduction of cost reflective tariffs is certainly more challenging for Victorian businesses than in other jurisdictions. Cost reflective tariffs will continue to be offered on an 'opt in' basis for the majority of JEN small customers in the 2026-31 period.

In the Revised Revenue Proposal, JEN committed to 'continue to engage with key stakeholders, including retailers, about our ongoing tariff reform approach and customer transition to more cost-reflective tariffs' throughout the next regulatory period¹⁵.

JEN also pointed to several tariff trials planned for the next regulatory period including a small business kerbside EV charging trial tariff and a high-voltage large business storage trial tariff which will address some of the issues raised by the AER in the Draft Decision. A new a new controlled load trial tariff will also be considered.

4.3.4 CCP32 observations/advice

CCP32 note that all 5 Victorian businesses proposed tariff information campaigns in the next regulatory period, some of which were intended to be funded through opex step changes none of which have been accepted in the Draft Decisions. We suggest that a

¹⁴ <https://www.aer.gov.au/documents/aer-attachment-13-tariff-structure-statement-draft-decision-jemena-distribution-determination-2026-31-september-2025>, p. 1

¹⁵ <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. 12

joint campaign in conjunction with retailers and the Victorian Government could be a more cost-effective option for a broad state-wide information campaign.

4.4 Key topic: Public Lighting

4.4.1 What the AER said in the DD

The AER's Draft Decision did not accept JEN's public lighting proposal as submitted.

In a submission to the AER Issues Paper in May 2025¹⁶, the Victorian Greenhouse Alliances (VGA), representing councils within JEN's service area made two recommendations in relation to JEN's Public Lighting Proposal:

- Jemena to reduce the estimated number of smart devices from 75,505 to 33,454 which includes all major road lights (27,296 in 2030) and 10% of residential streetlights.
- Jemena to include funding for accelerated LED rollout program and provide the option for customers to fund.

The Draft Decision:

- reduced the volume of smart lighting cells installed from 75,505 to 33,454 as a placeholder to reflect feedback Victorian Greenhouse Alliances (VGA) and encouraged JEN to further consult on the volume of smart lighting cells with councils.
- Did not accept JEN's proposed volumes for council funded LED lights, and requested JEN to further engage with its stakeholders to accurately reflect customers' interest in funding the 'accelerated LED rollout'.¹⁷

4.4.2 Relevant Engagement

As described in section 3.2, JEN engaged with the VGA on these matters between September and November 2025. Public lighting was also discussed with the ERG, and in their 'Feedback to AER on Jemena Electricity Networks distribution 2026-31 Draft Decision', the ERG stressed the need for ongoing collaboration with councils.

4.4.3 What was proposed in the RRP

JEN's Revised Revenue Proposal reflects the feedback from the VGA.

4.4.4 CCP32 observations/advice

CCP32 observe that the collaborative approach to engagement on these issues has led to a Revised Revenue Proposal which better meets the needs of customers.

4.5 Key topic: Metering

4.5.1 What the AER said in the DD

The AER's Draft Decision led to a total annual revenue requirement (ARR) for JEN's metering services of \$117 million for the next regulatory period, which is 16% lower than the

¹⁶ <https://www.aer.gov.au/documents/victorian-greenhouse-alliances-submission-victorian-electricity-distribution-proposals-2026-31-may-2025-1>, p. 14

¹⁷ <https://www.aer.gov.au/documents/aer-attachment-14-alternative-control-services-draft-decision-jemena-distribution-determination-2026-31-september-2025>, p.14

proposed ARR under the initial Regulatory Proposal¹⁸. This was largely a result of substituting a higher (33%) meter replacement forecast on the basis that it considered meter replacements more efficient than physical inspections.

4.5.2 Relevant Engagement

JEN discussed the Draft Decision with the ERG and raised with them the concern that the Draft Decision approach would create a 'bow wave' of inspection requirements in the next regulatory period. JEN proposed a more accelerated replacement program (43%) to mitigate this impact. JEN advised that this accelerated program would increase the capex requirement in the next regulatory period but eliminate the looming inspection problem in the following period. This was supported by the ERG. In its 'Feedback to AER on Jemena Electricity Networks distribution 2026-31 Draft Decision', the ERG re-iterates its support for meter replacement over manual inspection.

4.5.3 What was proposed in the RRP

JEN proposed the accelerated replacement (43%) in its Revised Proposal, noting that most customers' bills will increase by under \$10 (or about \$2 per year) in real terms over the five years to FY31¹⁹.

4.5.4 CCP32 observations/advice

CCP32 consider that JEN's revised proposal for accelerating the meter replacement program is supported by the ERG.

4.6 Key topic: Innovation Allowance

4.6.1 What the AER said in the DD

In its initial Revenue Proposal, JEN put forward 15 innovation projects at an aggregate cost of \$8.6 million totex for the 2026–31 period (\$4.4 million capex and \$4.2 million opex). The AER Draft Decision accepted 3 of the proposed projects as satisfying the criteria for innovative projects (subject to further evidence in support of the quantitative benefits), at a \$2.7 million totex (\$1.7 million capex, \$1.0 million opex).²⁰

JEN also proposed an internal governance committee to provide strategic decision making, governance and oversight across the portfolio of projects funded through JEN's Innovation Fund.²¹

4.6.2 Relevant Engagement

Innovation funding was discussed with the ERG at both its October and November 2025 meetings. JEN presented its intention to pursue innovation funding totalling \$5.2 million in the Revised Proposal, with an updated list of projects, updated project assessments and updated customer views. In the 'Feedback to AER on Jemena Electricity Networks distribution 2026-31 Draft Decision', the ERG again expressed its strong support for innovation funding and pointed to some of the practical difficulties obtaining external grant funding.

¹⁸ <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. 62

¹⁹ <https://www.aer.gov.au/documents/jen-2026-31-revised-proposal-december-2025>, p. 62

²⁰ <https://www.aer.gov.au/documents/aer-attachment-2-capital-expenditure-draft-decision-jemena-distribution-determination-2026-31-september-2025>, p. 54

²¹ <https://www.aer.gov.au/documents/jen-att-03-02-innovation-fund-proposal-20250131>, p. A-0

4.6.3 What was proposed in the RRP

The revised Innovation Fund now comprises four projects, with a total expenditure (totex) budget of \$5.4 million.²²

4.6.4 CCP32 observations/advice

JEN's relatively modest innovation allowance proposal is supported by customers and other stakeholders as evidenced by initial engagement with the People's Panel, ERG submissions, formal submissions to the AER Issues Paper, and various letters of support presented by JEN.²³

In their Feedback report, the ERG recommended 'Jemena adopt a co-governed, evidence-based framework, supported by transparent evaluation and customer involvement to ensure enduring value' (page 6). The VGA also recommended an 'innovation advisory committee using AusNet's innovation advisory committee governance model'.²⁴ JEN states that 'JEN has committed to our customer and industry reference groups that they will be critical in the delivery of JEN's Innovation Fund'.²⁵ It is not clear to CCP32 that the internal governance committee proposed by JEN as the governance framework for the innovation fund meets the requirements of its external stakeholders.

5. Generic Topics

5.1 CSIS/STPIS

5.1.1 What the AER said in the DD

All five Victorian distribution network service providers (DNSPs) proposed application of a Customer Service Incentive Scheme (CSIS) in their Regulatory Proposals. For Jemena, this was the first time a CSIS had been proposed, however the other businesses proposed to continue with schemes similar to those which were approved for the current regulatory period.

The AER Draft Decisions did not accept any of the DNSP's CSIS proposals and instead applied the customer service (telephone answering and new connections) parameters of the STPIS

²² <https://www.aer.gov.au/documents/jen-rp-att-03-02-innovation-fund-proposal-december-2025>, p. 1

²³ <https://www.aer.gov.au/documents/jen-rp-att-03-03-innovation-fund-letters-support-december-2025>

²⁴ <https://www.aer.gov.au/documents/victorian-greenhouse-alliances-submission-victorian-electricity-distribution-proposals-2026-31-may-2025-1>, p. 18

²⁵ <https://www.aer.gov.au/documents/jen-rp-att-03-02-innovation-fund-proposal-december-2025>, p. 3

Version 2.0.²⁶ The Draft Decisions include a claim that customers are willing to pay for the improved services relating to new connections²⁷.

The reasons for non-acceptance of the proposals varied between the businesses as follows:

AusNet Services

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

The Draft Decision also required AusNet services 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.

Jemena

- insufficient evidence that customers strongly support the adoption of the scheme or attribute value to the service improvements proposed, and
- Jemena's limited application of its expert panel's feedback on additional CSIS parameters.

CitiPower, Powercor and United Energy

- inadequate consultation on scheme design
- merging performance targets for general and fault calls within the grade service parameter into a single target which does not incentivise genuine improvement, and
- targets which do not incentivise genuine improvement or be commensurate with service improvements or degradations.

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

²⁶ <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-ausnet-services-distribution-determination-2026-31-september-2025>, p. 1; <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-jemena-distribution-determination-2026-31-september-2025>, p. 1; <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-citipower-distribution-determination-2026-31-september-2025>, p. 1; <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-united-energy-distribution-determination-2026-31-september-2025>, p.1; <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-powercor-distribution-determination-2026-31-september-2025>, p.1

²⁷ For example, <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-ausnet-services-distribution-determination-2026-31-september-2025>, p. 6

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 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 been impacted the CSIS.²⁸

5.1.2 Relevant Engagement

Each of the businesses engaged with their expert panels on the Draft Decision and potential response. None of the businesses engaged with end use customers following the Draft Decision.

5.1.3 What was proposed in the RRP

With support from its expert panel, AusNet Services amended its proposal and suggested implementation arrangements to address concerns raised by the AER. AusNet has included the updated scheme in its Revised Regulatory Proposal. We are not aware of wider engagement on its 2026- 31 CSIS performance targets as part of the Revised Regulatory Proposal as required by the AER in the Draft Decision.

Jemena, CitiPower, Powercor and United Energy assessed that there was insufficient time available between publication of the Draft Decision and lodgement of the Revised Revenue Proposal to meaningfully engage with end use customers to address the concerns raised by the AER. As a result, CitiPower, Powercor and United Energy have accepted the AER's Draft Decision not to apply a CSIS for the next regulatory period, while Jemena has re-proposed the scheme which was rejected in the Draft Decision to 'reflect the views of its customers'.

None of the DNSPs 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 ie residential and small business connections, as the parameter only applies to SCS connections.

5.1.4 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.

²⁸ For example, <https://www.aer.gov.au/documents/aer-attachment-9-customer-service-incentive-scheme-draft-decision-ausnet-services-distribution-determination-2026-31-september-2025>, p. 5

CCP32 agree 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

When they substituted the STPIS new connections parameter for CSIS parameters in the Draft Decision, CCP32 do not believe that the AER intended 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 advise 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 in section 5.1.1 above call into question the future of the CSIS. The comments reflect a view that the CSIS may not be achieving its intended objectives, may not be cost-effective and that customers may be better served by extension of the long-standing STPIS to incorporate more customer service measures.

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

5.2 EBSS (Insurance Step Change Removal)

5.2.1 What the AER said in the DD

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 4 of the 5 businesses (excluding CitiPower), 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.²⁹

²⁹ <https://www.aer.gov.au/documents/asd-ausnet-edpr-2026-2031-regulatory-proposal-31-jan-2025>, p. 262

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 customers under the EBSS. To compensate, the AER made adjustments to opex forecasts using a negative step change mechanism³⁰. This has resulted in reductions in forecast opex allowances as follows: AusNet Services \$58.1 million, Jemena \$27.2 million, Powercor \$76.4 million and United Energy \$22.6 million.

5.2.2 Relevant Engagement

Each of the businesses briefed their expert panels on this issue.

5.2.3 What was proposed in the RRP

The businesses have strongly objected to these decisions, which they refer to as 'ex-post clawbacks'³¹. The 4 DNSPs jointly obtained legal advice³² and a consultant's report³³ to support their challenge to the validity of the AER's Draft Decision.

5.2.4 CCP32 observations/advice

CCP32 is not qualified to address the legal and regulatory issues associated with this decision. Our concern is not whether the AER can attempt to 'claw back' the under expenditure, rather whether it should from a customer perspective.

Our understanding is that the objective of the EBSS (and incentive regulation) is to share genuine business efficiency gains between a business and its customers. The question for us 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 are 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.³⁴ 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.

³⁰ See for example <https://www.aer.gov.au/documents/aer-attachment-3-operating-expenditure-draft-decision-powercor-distribution-determination-2026-31-september-2025>, p. 35

³¹ See for example <https://www.aer.gov.au/documents/jen-rp-att-06-05-insurance-operating-expenditure-december-2025>, p. 5

³² <https://www.aer.gov.au/documents/jen-dla-piper-rp-att-06-06-john-middleton-legal-opinion-victorian-dnsp-insurance-opex-november-2025>

³³ <https://www.aer.gov.au/documents/jen-houston-kemp-rp-att-06-07-victorian-dnsp-insurance-premiums-november-2025>

³⁴ See for example <https://www.aer.gov.au/documents/jen-rp-att-06-05-insurance-operating-expenditure-december-2025>, p. 3 and <https://www.aer.gov.au/documents/pal-rrp-att-401-insurance-premiums-december-2025>, p. 6

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 advise 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 underspends should be 'clawed back' or whether the gains should be shared between the business and its customers.