Consumer

Challenge

Panel

CCP32 Advice to the Australian Energy Regulator on the AER Draft Decision & 2026-31 Revised Revenue Proposal for Powercor 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 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.

Statements of Advice were provided to the Australian Energy Regulator (AER) by Consumer Challenge Panel, sub-panel 32 (CCP32) in response to the 2026-31 Regulatory Proposals for each of the five Victorian electricity distribution business in May 2025. This report builds on that Advice and specifically considers:

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

CCP32 reapplies our May 2025 observations that this Revised Proposal has been 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 consumer energy resources (CER) by Victorian consumers and an active and changing policy and regulatory environment.

This is one of five submissions that CCP32 has prepared in response to Revised Revenue Proposals from each of the Victorian electricity distribution businesses. All five submissions focus on consumer engagement undertaken by the businesses with a main focus on engagement undertaken during 2025, this being the time between the lodgment of the original revenue proposal and the lodgment of the Revised Proposal. This statement of Advice considers the Powercor Draft Decision and Revised Proposal. Since Powercor is one of three Victorian businesses with similar ownership, some of the comments and reflections in this Advice apply to all three 'sister' businesses: Powercor, United Energy and CitiPower; referred to collectively as the CPU businesses.

Notes:

1. All financial information in this report is presented in real 2025-26 dollars, unless otherwise stated.
2. Page numbers quoted in this document refer to the page in the relevant "Revised Proposal 2026-31."

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 Victorian network businesses and the impact of their engagement, there have been continuing, limiting factors

Continuing factors, which were described in out May 2025 Advice, being:

1. Late Appointment of CCP

For CCP subpanel 32 (CCP32) there has been very limited capacity of CCP32 to observe engagement activities conducted by Powercor 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

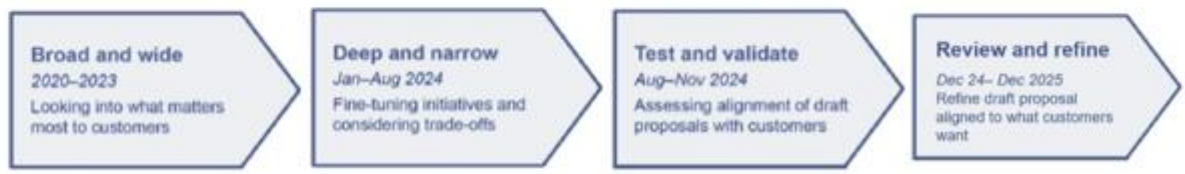
With Draft Decisions being released in September and Revised Proposals due by the beginning of December, there is limited time for businesses to engage on specific matters raised in Draft Decisions and insufficient time to commence new engagement on broader topics

3. Engagement undertaken during 2025

In their Draft Decision, the AER identified a 'handful' of topics where further engagement was encouraged and in some instances, additional information sought to justify expenditure proposals. The topics most germane to Powercor consumers we summarise as:

- Regional and rural resilience: some proposed programs considered to be "prudent" but not deemed to be "efficient."
- Vulnerable customer package
- Capital expenditure
- Opex, including vegetation management and "customer assistance package."
- Innovation (Allowance)

The engagement approach by the CPU businesses for the 2026-31 Revised Revenue Proposal has been summarised by them with this diagram as "phase 4, Review and Refine" planned for and implemented over 2025, after the lodgement of the initial proposal in January 2025.



The Draft Decision "engage further" topics were included in the "Review and Refine" phase where possible. Some phase 4 engagement topics were anticipated by CPU, and some were also the subject of planned ongoing engagement.

The 2025 engagement activities undertaken by Powercor, either specific to Powercor or as part of CPU business engagement were, to the best of our understanding, the following:

- Ongoing discussion with the CAP, including about Draft Decision questions including CSIS, Innovation, CER enablement, regional and rural service quality, uncertainty and rapid change
- Targeted Willingness to Pay processes including: a survey (802 participants), in-depth one-to-one interviews (16 participants) and bilateral discussions with C&I customers
- Survey – through an online link, and phone discussion with customers complaining about undervoltage (87 people in total)

- In depth interviews with farmers about electrification and future electricity requirements of various farming types (19 interviews, 28 people)
- A public lighting webinar with 25 participants and 22 follow up surveys
- Ongoing partnership re electrification and consumer behaviours with RACE2030, through Monash University
- Working with the First Peoples Advisory Committee (FPAC) appointed by the CPU businesses.

The following table brings together, in summary, the Draft Decision engagement topics noted above with some additional, relevant topics. The second column identifies the engagement program, germane to these topics with an overview of the main methodologies applied. The third column lists the engagement topics covered by the relevant engagement activity, as intended by the businesses. The final column indicates the relevant business, noting that much of the engagement program applied to all three businesses, though there were 2 Powercor specific engagement processes notably SWER upgrades for some regional and rural customers, and aspects of electrification of agriculture.

We also note that some of the engagement was quite specific to developing the Revised Proposal while other topics were explored as part of "business as usual" (BAU) engagement.

CPU Engagement Program and Methodologies – During 2025

DD Topic	Engagement program and methods	Engagement Activity: Topics Covered	Relevant Business
Capex: regional and rural upgrades, including worst performing feeders / SWER upgrades	"Willingness to pay" • Quantitative Survey + • In depth interviews + • 1:1 with C&I customers (Conducted by 3rd party – Quantum Market Research)	• SWER upgrades to three phase • Customer assistance package Specific to C&I: BAU and ongoing understanding of needs and preferences	Powercor
Capex: responses to undervoltage	Surveyed 87 customers who complained about undervoltage impacts: • All complainants invited to complete an online survey • Phone discussion with some • Face to face discussion where possible during 'fix ups'	• Customer-driven electrification BAU engagement. Ongoing and significant issue for United Energy	CP, PC, UE
CAPEX: CER enablement	Discussed with CAP Linked with undervoltage engagement Discussed with Committee for Greater Shepparton (**CGS**), DEECA, ESC. And ECA	CER	CP, UE (PC explored though PC specific processes)
CAPEX: resilience	No new engagement: Consumer inputs from process conducted before 2025 were utilised. Also, bilaterals with DEECA, CGS and ESV	Resilience	CP, UE
CAPEX / Opex. Electrification of Agriculture	19 in depth interviews and cooperation with regional bodies including Farmers for Climate Change and Committee for Shepparton	• BAU engagement • Regional and rural supply upgrades • Innovation allowance • Northern Murray harmonics • Community support officers	Powercor

DD Topic	Engagement program and methods	Engagement Activity: Topics Covered	Relevant Business
Opex: Customer Vulnerability Strategy	"Willingness to pay" Same methodology and survey as regional and rural worst served customers with focus on "Customer Assistance Package."	• Vulnerability strategy • BAU engagement in better understanding customers in vulnerable circumstances Customer Assistance Package	CP, PC, UE
Opex: Customer Vulnerability Strategy	First People's Advisory Committee (FPAC)	Customer Assistance Package	UE, PC
Opex: vegetation Management	No new engagement. Consumer inputs from process conducted before 2025 were utilised.	Vegetation management	PC, UE
Tax on connections	CAP, 1:1 with businesses directly connected to the network and with EUAA, ECA and DEECA	Tax on connections Data Centre growth	CP, PC, UE
Innovation Allowance	CAP	Governance Innovation projects	CP, PC, UE
Tariffs: Kerbside charging	Engaged with "19 informed stakeholders" 1.5 hour workshop, 17 participants, survey for additional stakeholders. Participants included kerbside infrastructure owners. operators and retailers.	Kerbside EV Tariffs	CP, PC, UE
Public Lighting	Engaged with 25 stakeholders, mainly Councils through webinar and follow up survey	Public Lighting	CP, PC, UE
(Review and Refine – included though not a Draft Decision topic)	Customer Commitments • CAP engagement: From mid 2024 – November 25 • Bespoke customer research: September 2025	All key initiatives within the reset across the strategic pillars of: reliability, resilience, affordability, equity, energy transition	CP, PC, UE

Compiled by CCP32 with advice from CPU businesses staff – January 2026

<u>Further detail regarding selected engagement activities.</u>

We note that the "Willingness to Pay" (WTP) approach, as applied in this instance, varied from other applications that CCP subpanels have observed, the CPU approach being focussed on two specific hypotheses., these being (in our words)

1. Ho: There is broad support across the Powercor customer base for SWER upgrades for worst served rural customers.
2. Ho: There is broad support across the Powercor customer base for the proposed Customer Assistance Package.

The components of this WTP process were:

- Quantitative Survey of 802 people, conducted online
- In depth interviews with 16 people
- 1:1 interviews with C&I customers

The process was undertaken by a third party, Quantum Market Research and was designed to reflect the demographics of the Powercor region. They reported that 72% of household and 70% of small / medium businesses supported the SER lines upgrade proposal and for the customer assistance proposal, 77% of household customers and 71% of small / medium businesses were supportive.

'Impacts of undervoltage' engagement comprised a link to an online survey being sent to every person who rang about low voltage problems. Some of these customers were followed up with phone calls. Where 'fix up' activities were undertaken there was discussion, where appropriate with customers on site. This is a BAU process relevant to aspects of the Revised Proposal with 87 customer responses received during 2025.

Powercor's objective to better understand different farming segments and their electrification future, imminent and longer term, was a significant engagement that also explored broader electrification sentiment. The process involved working with relevant organisations, including Farmers for Climate Action and the Committee for Shepparton, to identify people to be interviewed with 19 one to one interviews being conducted as well as two online focus groups, both processes conducted by a third party organisation.

Recent discussions with CPU staff have directed CCP32 to the relationship with Monash University, to which we referred in our May 2025 response to the AER's Issues Papers. Monash University is part of the RACE for 2030 research project with the CPU businesses involved as an Industry Partner. A report for CPU businesses, Scenarios for Future Living[1] has recently been released with the businesses saying:

"Key ways we will utilise the insights:

- *more accurately preparing future demand and connection forecasts*
- *better network planning to anticipate evolving and trends and preferences*
- *developing more targeted and effective network tariffs*
- *developing new demand management products and services*
- *building an ongoing understanding of our customers' future needs, preferences and energy use trends."*

This is a BAU partnership that has and is contributing to CPU business thinking about customer priorities.

CCP32 observations

Principles Based Engagement Approach

In our response to the Powercor Issues Paper (May 2025) we made the following comments about the CPU approach to engagement for the 2026-31 regulatory process. We think that this is worth repeating, in large part because the approach differs in some details from methodologies applied by other network businesses.

> *"CCP32 thinks that it is worth noting that the methodology for consumer engagement that CPU has applied is different in focus, to the consumer engagement approaches that have been applied by many other energy network businesses. The engagement process was commenced very early, with CPU keen to apply lessons learned from their engagement for the 2021-26 regulatory period. There have been three aspects to the proposal development:*
>
> 1. *Principle based: There was a very strong focus on the principles that customers expected to be applied to developing the regulatory proposal. There was a firm commitment in taking this approach "broad and wide" to interact with a diversity of consumer and stakeholder interests.*

[1] About - Scenarios for Future Living

2. *Much of the development of the detail of what would become the regulatory proposal was undertaken internally by the CPU businesses, with a commitment to rigorously apply the principles that had been developed. CPU businesses describe this internal process as being based "on a robust governance framework."*
3. *Test (and validate) the conclusions reached by CPU businesses in applying the principles to more specific aspects of the proposal."*

During 2025 the CPU businesses have stayed true to their Principles Based Engagement approach, with its focus on internal actions applying the principles.

In their Revised Proposal Powercor continued to invoke "the golden thread" stating that it remains the basis of their 'investment cases' and providing a linkage "between the voice of the customer and our Revised Proposal." (page 8 of Revised Proposal)

There is much to like about any principles based approach, using principles developed with active consumer input. The willingness of the CPU businesses to maintain the approach over the full duration of the reset process and beyond, we expect, is constructive.

We also highlight that a 'principles based approach' is not unique to the CPU businesses, it's an approach that is widely used by network businesses as part of their engagement. What we observe that is more bespoke to the CPU businesses is the extent to which the principles are applied internally for the business. There is not the same level of external engagement activities that CCP subpanels observe for other businesses. Engagement beyond the internal structures appears to be driven by desire from within the business to garner specific information about a particular issue.

CAP

The Consumer Advisory Panel (CAP), to our understanding, has been a key partner in developing and reviewing engagement activities and interpreting results. Where we have been able to observe CAP meetings, we are convinced that the CAP members are independent and are able to provide a challenge role, when members consider this warranted, as well as being collaborators. The CPU businesses have done well in appointing CAP members who will not necessarily agree with CPU staff perspectives and who are well informed about the regulatory and associated issues that they are asked to consider.

First Peoples Advisory Committee

CCP32 commends the CPU businesses for establishing a First Peoples Advisory Committee and their willingness to learn with them. During 2025 the CPU businesses and the FPAC worked together on appropriate engagement and in particular on the First Peoples aspect of the "Customer Assistance Package."

BAU and Reset Specific Engagement

During 2025 the CPU businesses have maintained an active 'engagement' focus; some reset specific, to our understanding, while there has also been 'business as usual' engagement that has included surveying 'low voltage' complaints and regional and rural perspectives. The BAU engagement processes have been utilised to include reset specific questions.

We observe that this utilisation of BAU engagement also means that structures and intent are already in place to consider topics relevant to the development of the 2031-36 regulatory proposals.

For CCP32, this move to decoupling engagement from being specific to resets and more orientated to BAU engagement is appropriate and constructive.

Engagement approaches

The engagement activities listed above are fairly standard: interviews, surveys, focus groups and workshops / webinars. We comment specifically on the use of a Willingness to Pay methodology, in particular to test willingness of Powercor customers to contribute to regional and rural upgrades, particularly for worst served customers and the proposed Customer Assistance Package (as part of the broader Vulnerability Strategy).

CCP subpanels, from CCP1 have not been supportive of Willingness to Pay surveys as justification for extra network expenditure[2]. In this instance, the CPU businesses have applied a Willingness to Pay type methodology to 2 very specific hypotheses, given on page 8.

The approach of testing these through a quantitative survey, in depth interviews and discussions with C&I customers – a Willingness to Pay Deep Dive - we consider to be appropriate and delivering useful consumer attitudes. (This cannot be interpreted as CCP support for broader applications of Willingness to Pay methodologies.)

Qualitative and Quantitative

We have observed a desire by the CPU businesses to utilise methodologies that provide qualitative results rather than just relying on quantitative approaches, like surveys, that can tend to give general / aggregated results but miss the range of consumer views. Often it is the diversity of view that are most useful to businesses and for the regulator.

Visibility of Engagement

The main dilemma with the CPU business's engagement approach for CCP32 has been the lack of visibility of the engagement activities, outside of the CPU businesses, so we cannot definitively say to the AER that the engagement results reported by the businesses from the various engagement activities are accurately reflected and any diversity of opinions carefully considered. We are unable to comment on any nuance in engagement activities that we may have observed, if we'd had the ability to observe engagement.

We are aware that the CAP continues to play an important continuity role with CPU engagement as well as other roles listed elsewhere, but we cannot be certain that even CAP members are aware of engagement activities, before they are conducted and so may not be involved with engagement process design. We will look to the CAP's response to the Revised Proposal for any insight on the extent to which they have had full visibility of engagement activities.

This lack of external visibility of engagement has been challenging for CCP32 in not being able to fully reflect the range of engagement activities and outcomes and the value that they have afforded.

Results

The challenges of limited ability to observe CPU business engagement, notwithstanding, we consider that there is a good probability that:

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[2] Concerns with WTP methodologies include the reality that WTP surveys often average aggregated responses and so don't consider capacity to pay for lower-income (non WTP average) customers nor are WTP expenditures compared with a range of potential household spending options – e.g. would you rather have holiday or pay more for network upgrades? Is an unasked question

- The engagement undertaken has been genuine, well planned and informed
- The CPU staff have been diligent, hardworking and honest in their engagement approaches
- Engagement activities have been well documented and advice given heeded.
- The Principles based approach is appropriate.
- Senior Management has clearly heard the message about keeping costs low, with the CAP seeking to nuance a 'low costs at all costs' (our phrasing) to one with a focus on the "value that customers are seeking."
- The 'proof' of application of the principles, particularly cost effectiveness, are evidenced by the continuing lower distribution costs per customer for CPU businesses[3], compared to other DNSPs along with the preparedness of the CPU businesses to accept a number of lower cost allocations given in the Draft Decisions. We cannot be sure whether customers agree that application of the principles has delivered an outcome which aligns with their perspectives and which they can support a report from the CAP in response to the Revised Proposal may add some clarity on this question.

4. Draft Decision and responses

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 Large Capital Contributions

4.1.1 What the AER said in the DD

The AER has summarised their Draft Decision on this topic to CCP32 saying:

> *"In our draft decisions (attachment 16) we recognised the Victorian DNSPs revenue proposals highlighted continued growth in data centre connections. Given the changing market conditions associated with this significant new load our draft decision identified there could be a growing cross subsidy related to the recovery of tax costs associated with upfront capital contributions from very large connecting customers. This is because under our current framework upfront capital contributions are treated as income in the year received and subject to tax. This tax liability is included in the calculation of allowed standard control services (SCS) revenue to be recovered (from all users) over the regulatory period.*
>
> *Our draft decisions encouraged the Victorian distributors to consider an approach to remove this subsidy whereby the net tax liability arising from capital contributions is included as part of the upfront connection cost paid directly by the customer. We also noted that as part of the Revised Proposal process, we expect broader engagement on the topic and further information on why the thresholds at which to charge the net tax liability directly to the connecting customer*."

CCP32 has been asked for comments on three related questions:

1. Engagement undertaken on this topic;
2. The level of an appropriate threshold above which the treatment of tax should apply;
3. Whether the tax should be applied to all large customers above the given threshold or just data centres?

[3] Refer AER network benchmarking report: https://www.aer.gov.au/industry/registers/resources/reviews/annual-benchmarking-reports-2025

4.1.2 Relevant Engagement

CCP32 did not observe any engagement on these taxation specific topics during 2025. The CPU businesses may have raised this question in their BAU discussions with C&I customers, and with data centres directly. The topic was discussed at the July CAP meeting and listed as an IAP2 "consult level" topic.

In its Revised Proposal, Powercor says that it engaged directly with the CAP, DEECA, EUAA and ECA on this corporate income tax question and there was general support for (or at least not opposition to) the position presented in the Revised Proposal.

4.1.3 What was proposed in the RRP

Powercor has responded to the AER's Draft Decision saying:

> *"We propose that the threshold for being liable for tax costs be determined based on the connection voltage on our network. That is, connections that are either HV or sub-transmission will be liable for their own tax costs.*
>
> *… we expect this decision will impact a relatively small number of connections. For example, over the last three years across CitiPower, Powercor and United Energy there were 88 connection projects that would have been liable for tax costs. About half of these are renewable energy projects which would have been liable for tax under AusNet's current connection policy which has a 1.5 MW threshold for tax liability." (Page 18, Revised Proposal)*

4.1.4 CCP32 observations/advice

CCP32 think that complex questions like this should first be considered by application of principles. We suggest that appropriate principles in this case include:

- Are there relevant rulings or judgements by the relevant authority, in this instance the Australian Taxation Office.
- Causer pays.
- What is fair? In particular is there a risk that lower income and vulnerable households, farmers and other small businesses could end up cross subsidising larger businesses?
- All entities, people or companies should pay a fair taxation contribution.
- Simplicity in understanding and in implementation, including being 'efficient' in that the cost of collecting the tax is small compared to the amount of tax collected.

The "Causer Pays" principle is a fair succinct summary of these principles and was generally supported by the direct engagement undertaken by CPU businesses, although not necessarily with these words.

CCP32 considers the approach taken by the CPU businesses is reasonable whereby the connection voltage is used as the threshold with HV and sub-transmission customers "liable for their own tax costs," and LV connected customers are not.

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.

Regarding the AER's question "Whether the tax should be applied to all large customers above the given threshold or just Data centres?" Our understanding is that the tax should be applied to all businesses above the connection voltage threshold, irrespective of whether the business is a Data centre. We consider this to be a fair approach.

4.2 Key topic: Capex

4.2.1 What the AER said in the DD

The Draft Decision reduces total capex proposed in the (initial) proposal by $947.9m which is 26% less than what was proposed, while being greater than the current period allowance. Major reductions were for repex (reduction by $370m), augmentation (reduction by $229m), Connections (reduction by $80m), and resilience (reduction by $70m).

For augmentation generally, the Draft Decision said:

> *"We found that in many cases Powercor had overestimated the benefits of proposed projects which, when adjusted for, results in negative net benefits for these projects."*

For repex, the general observation was that:

> *"We also did not have confidence in some of Powercor's volume forecasts due to material data discrepancies."*

The significant increases in proposed capex were consistent with substantial capex increases being sought recently by network businesses across the NEM, driven by many of the same issues: resilience, CER enablement and uncertainty in a rapidly changing and transitioning market.

Much of the focus on capex considerations arising from the Draft Decision relate to augex and repex, with the major reductions, and hence engagement focus being:

Augex

- Customer Driven Electrification: $97.1m to $11.5m in the DD
- Regional and Rural equity: $81.5m to $14.6 in the DD
- Minimising bushfire risk: $43.8 to $0m in the DD

Repex

- Poles: $524.7m to $418.5m in the DD
- Pole-top structures: $252.1m to $148.5m in the DD

4.2.2 Relevant Engagement

Where engagement had informed the capex projects proposed by Powercor, the AER accepted the reported consumer perspectives but did not regard some projects to be prudent or efficient, so the onus is on the business, in the Revised Proposal to demonstrate prudency and efficiency of proposed capex projects.

Capex related engagement during 2025 focussed on three key areas, as we understand: Capex: Regional and Rural upgrades, including worst performing feeders / SWER upgrades, undervoltage issues related to CER and electrification of agriculture.

Powercor undertook significant 2025 engagement regarding the augex issues listed, including an undervoltage impact survey and discussion, electrification of agriculture interviews for customer driven electrification and a focussed willingness to pay process to ascertain the level of support for "regional and rural equity" across the Powercor customer base.

4.2.3 What was proposed in the RRP

Powercor has proposed revised allowances for the major capex reduction from the Draft Decision:

Augex

- Customer Driven Electrification: $97.1 m to $11.5m in the DD with $106.7m in RP
- Regional and Rural equity: $81.5m to $14.6 in the DD with $79.2m in the RP
- Minimising bushfire risk: $43.8 to $0m in the DD with 37.8m in the RP
- Also, there is a bid to increase the allocation for "greater western Melbourne supply" from the accepted $90.0m to $146.4m in the Revised Proposal

Repex

- Poles: $524.7m to $418.5m in the DD with $459.1m in the RP
- Pole-top structures: $252.1m to $148.5m in the DD with $197.8m in the RP

Concerning the "greater western Melbourne supply" increase, Powercor explain that "five of the ten highest growth statistical areas in Australia" are in the western Melbourne area and so new augmentation, including a new zone substation at Point Cook, is needed sooner than recent thinking, as reflected in the Draft Decision, indicated.

> *"The AER accepted our proposed expenditure for the greater western Melbourne supply area but rejected our PCK zone substation contingent project on the basis that the trigger event for the project occurring within the regulatory period was 'sufficiently certain' (i.e. the AER assessed the project was likely to be required in the 2026–31 regulatory period).*
>
> *We have updated our demand forecasts, with growth in the Western Melbourne corridor increasing further from our regulatory proposal. Given these increases in our demand forecasts and the AER's recognition in its draft decision of the project need, we have now included development of stage one of the PCK zone substation within our revised expenditure forecast." (Pages 36,37 Revised Proposal)*

In summary, the total augex expenditure has increased from the original proposal, in the Revised Proposal by $60.5m which is an increase of $282.1m from the Draft Decision. While total repex expenditure in the Revised Proposal has decreased from the original proposal by $212m which is an increase from the draft Decision by 143,4m.

Powercor argue that their Revised Proposal increases from the Draft Decision are based on:

- Meeting jurisdictional requirements
- Improved demand forecasts
- Consumer and stakeholder advice
- More thorough expenditure proposals

4.2.4 CCP32 observations/advice

Where Capex projects were rejected, it was not for lack of consumer engagement but because more information was needed to demonstrate that the proposed implementation of consumer supported projects is prudent and efficient. Engagement was undertaken on key aspects of the proposed augex program during 2025 with CCP32 being satisfied that consumers support the proposed expenditures in the Revised Proposal.

The proposed increase in augex for greater western Melbourne appears to be reasonable given the rapid population growth in the region.

We also note that the CPU businesses emphatically reject aspects of the EMCa analysis that the AER has relied on. We regard these differences as being largely technical in nature and so outside of the direct influence of consumer and stakeholder engagement and so beyond our purview.

Our observation is that the proposed capex increases have been subject to internal scrutiny and, where relevant, consumer advice. We also opine that the question posed in the Draft Decision about the level of general customer support for "Regional and Rural equity" have been consulted on with good intent and appropriate methodology with the results affirming Powercor's proposals.

4.3 Key topic: Capex Resilience Expenditure

4.3.1 What the AER said in the DD

The AER said:

> *"… we acknowledge the need for resilience-related expenditure especially for a regional and rural network like Powercor that can be impacted by extreme weather events. However, we have not accepted Powercor's forecast in full. This is because while we found that most of its network investments are prudent, we were not provided with sufficient evidence that its proposed solution was efficient and therefore would result in achieving the greatest net benefit to consumers."*

The Draft Decision was to reduce resilience expenditure by $70.2m which is 73% less than what was proposed.

4.3.2 Relevant Engagement

Resilience related engagement has been an ongoing topic for the CAP over the duration of the development of the regulatory proposals. Powercor's engagement focused on regional and rural impacts as summarised in the table on pages 7 and 8 of this Advice.

4.3.3 What was proposed in the RRP

The original proposal sought $93.9m for resilience related expenditure while the Draft Decision allocated $24.7m and the Revised Proposal is seeking $48.5m. The main point of difference between the AER and Powercor is the "Bushfire resilience program" while for the Revised Proposal, Powercor has added a new project "Quick connect points" with $5.2m sought. These are based on being *"an additional resilience investment based on recommendations from the Victorian Government's network outage review." (page 53, Revised Proposal)*

4.3.4 CCP32 observations/advice

We are interested that the AER has separated "prudency" of much of the proposed resilience expenditure, while being clear that what was proposed was not demonstrated to be "efficient." The Draft Decision was therefore more of a place-holder awaiting further detail than a rejection of resilience focused capex.

The "bushfire resilience program" was accepted by the AER as being a legitimate expense, the question being that the AER regarded the cost as being too high. The nub of the issue is about pole replacements and pole protection options which come down to being technical considerations and not within the CCP purview. We note that Powercor has lowered their proposed expenditure in the revised Proposal with reference to the substantial repex pole replacement program. This is appropriate.

There is no doubt for us that there was strong support for additional 'resilience capex' expenditure, particularly in Powercor's regional and rural districts. The engagement conducted through 2025, in these non-metropolitan areas, reinforced customer support for this expenditure while the focussed willingness to pay process confirmed that there was widespread support across the entire Powercor region from metropolitan and non-metropolitan consumers for the proposed expenditure. The 'prudency' remains and was strengthened during 2025.

4.4 Key topic: Opex Step changes

4.4.1 What the AER said in the DD

The AER "alternative estimate for opex was 16.9% ($371.6m) lower than what was proposed by Powercor while being 17.2% higher than actual and estimated opex for the current 2021-26 period.

Key step change decisions being

	Powercor proposal	Reduction ($m)	% reduction
Vegetation Management	$232.9	$232.9	100%
Network and Community resilience	$6.8	$6.8	100%
Customer Assistance package	$26.7	$15.8	41%
CER integration	$28.7	$6.7	23%
Cloud services	$26.1	$23.3	90%
ICT modernisation	$22.0	$1.9	9%

CCP32 notes the comprehensive review of step changes undertaken by EMCa and general AER support for their findings. , For vegetation management, the finding is summarised by:

> *"Powercor has significantly overestimated the opex required to comply with its regulatory obligation."* (Page 25, attachment 3)

There is no suggestion that the importance of vegetation management is not accepted, it's the efficient implementation that is questioned in the Draft Decision.

Regarding vegetation management, AER asks in attachment 3 of the Draft Decision whether underspending on vegetation management is an efficiency gain and so relevant for an EBSS benefit or non-compliance.

> *"We are considering whether Powercor's failure to maintain compliance with its vegetation management obligations constitutes a non-recurrent efficiency gain. We would welcome stakeholders' views on this issue. If we were to consider the additional opex required to comply with vegetation management obligations was a non-recurrent efficiency gain, then the additional opex would be recognised in the EBSS. This would penalise Powercor for the additional opex it needed to meet its regulatory obligations in the same way it has been rewarded for not increasing its opex to a level that would allow it to meet those obligations."*

A similarly comprehensive review of the Customer Assistance Package has been undertaken as part of the EMCa review. The Draft Decision also notes CCP32's response in identifying customer support for the program.

The EMCa review of this program is very thorough and has led to the AER Draft Decision, element by element as copied below from page 20, attachment 3 of the Draft Decision.

Table 3.9 Customer assistance package draft decision summary ($million, 2025–26)

Program	Proposal	Alternative Estimate	Draft decision	Comment
Energy Care	2.6	0.7	Partially accepted	Accept costs for partnership delivery and areas of unique positioning, avoiding duplication
Community Energy Fund	6.3	–	Not accepted	Powercor not uniquely positioned to provide this service. Overlap with other organisations
Vulnerable Customer Assistance Program	7.7	7.7	Accepted	Accept as a placeholder; subject to Powercor confirming CAP support detailed program costs
Energy Advisory Service	2.7	–	Not accepted	Not a new service; potential double-counting with CER Data Visibility program
First Peoples Program	7.3	7.3	Accepted	Accept as a placeholder; seek further evidence that FPAC supports net benefits of program
Total	**26.7**	**15.8**	**41% reduction**	

The Draft Decision is to regard this program as a "category specific forecast" rather than a step change and to reduce the proposed program cost by 41% as aspects of it were considered to be neither prudent nor efficient.

Regarding network and community resilience, the Draft Decision is that:

> *"We have not included the $6.8 million network and community resilience step change in our alternative estimate of total opex. We consider that Powercor's total base opex, and the rate of change, provides sufficient opex for Powercor to undertake these activities in the 2026–31 period." Page 32, Attachment 3.*

4.4.2 Relevant Engagement

Powercor engaged significantly on the Customer Assistance Package during 2025, through the targeted Value of Customer reliability process (as one of two specific hypothesis that were tested) and CAP meetings – where it was a continuing agenda item throughout the year.

The AER specifically asked for further evidence that the First People's Program was supported by FRAC, the First People's Advisory Committee.

We note from the FRAC meeting of December 2025 the following general comments from the meeting minutes:

- *FPAC members noted that they told members about the surveys at local Native title meetings & yarning circles with communities.*
- *FPAC highlighted that in-person yarning was more effective in gaining feedback than online platforms.*
- *The First People team commented on the success of survey engagement at in-person events such as the VASCAL football/netball carnival.*
- *FPAC mentioned that marketing at First Peoples events was a useful tool in promoting energy literacy, particularly in helping people understand who their distributor is.*

With particular reference to the First Peoples Program, the minutes state:

- *" FPAC endorsed the First peoples Program for United Energy*
- *FPAC endorsed the First peoples Program for Powercor."*

CCP32 has also been shown a letter from the Chair of the First Peoples Advisory Committee, Pauline Ugle, written to the AER and dated 13th November 2025. The letter includes the following:

> FPAC has reviewed and **endorsed the First Peoples Program** in full. We are confident it delivers meaningful, lasting benefits — not only to First Peoples communities but to all customers through improved network performance, avoided social costs, and enhanced trust in the energy system.
>
> Additionally, the First Peoples team will work closely with FPAC to develop an evaluation framework to account and assess each programs' performance, develop its governance and ensure the sharing of knowledge gained. FPAC will ensure that the programs remain agile, fit-for-purpose and responsive to First Peoples customer needs.
>
> We urge the AER to support the inclusion of the First Peoples Program in the final determination, recognising that this investment provides measurable economic, cultural, and social returns consistent with the long-term interests of customers.

4.4.3 What was proposed in the RRP

The major Draft Decision reduction for step changes was for vegetation management with Powercor reducing their initial proposal of $232.9m to $53.3m in the Revised Proposal, this being additional to the vegetation management allowances embedded in the base opex.

The "Customer Assistance Package" that was originally proposed as a 'step change" has been accepted as being a "category specific forecast" with Powercor accepting the Draft Decision of $15.8m.

4.4.4 CCP32 observations/advice

While there is a range of aspects to the opex Draft Decision, including base year and trend considerations, we have focused on step changes as this is both where the greatest impacts of the

Draft Decision opex reductions are found and were the opex topics considered in consumer engagement.

We observe that Powercor has responded to the step change allowances from the Draft Decision revising their vegetation management to about a quarter of the original proposal. The Draft Decision for the Customer Assistance Package has been accepted and the First Peoples component ratified by the Powercor / United Energy First Peoples Advisory Committee.

CCP32 commends the CPU businesses for establishing a First Peoples Advisory Committee and their willingness to learn with them.

We also note that the "Vulnerability Strategy" while supported by consumers, has not been deemed to be prudent or efficient. We think that the strategy is in keeping with the intent of the AER's "Towards energy equity: A strategy for an inclusive energy market" [4] with its 5 core objectives of:

1. *"improve identification of vulnerability*
2. *reduce complexity and enhance accessibility for energy consumers*
3. *strengthen protections for consumers facing payment difficulty*
4. *use the consumer voice and lived experience to inform regulatory design and change*
5. *balance affordability and consumer protections by minimising the overall cost to serve."*

Our opinion is that objectives 3 and 4, in particular, are supported by the CPU Customer Vulnerability Strategy.

4.5 Key topic: TSS

4.5.1 What the AER said in the DD

The Draft Decision includes

> *"It is imperative for Powercor to use all the levers available to it, particularly tariffs, to optimise network utilisation. We consider that Powercor 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 look to develop tariff trials aimed at managing flexible load and improve its long-run marginal cost calculations." (page ix Draft Decision)*

4.5.2 Relevant Engagement

Powercor states that they engaged with 19 informed stakeholders, including retailers and charging infrastructure providers, to formulate their kerbside EV tariff that will be trialled in the first year of the new regulatory period.

The TSS explanatory statement outlines a list of engagement activities undertaken to inform the 2026-31 TSS (page 16), but it is not clear which of this engagement occurred during 2025 and in response to the Draft Decision. We understand that tariffs was an ongoing discussion with the CAP, including during 2025, while there was shared work with other DNSPs in Victoria about tariffs earlier in the development of regulatory proposals.

Powercor says that what they heard from engagement on tariffs was:

[4] https://www.aer.gov.au/about/strategic-initiatives/towards-energy-equity

"The key themes emerging from our stakeholder engagement indicate that network tariff design involves a trade-off between potentially competing objectives—maintaining simplicity and stability, versus adapting tariffs for the energy transition. Another theme was a desire for more information and education."

4.5.3 What was proposed in the RRP

In the TSS Compliance document, Powercor says

"For the 2026-31 regulatory period, we will continue to reduce the residential and small business time of use (ToU) network tariffs by an additional one per cent per year relative to the single-rate network tariff, for the average customer consumption profile. By 2030-31, the residential and small business ToU network tariff will, on average, be priced ten per cent lower than the single-rate network tariff.

Over the 2026-31 regulatory period, we will progressively increase the proportion of network revenue recovered by small businesses through the fixed daily supply charge so that by the 2030-31 roughly 30% of network revenue will be recovered through the fixed daily supply charge." (TSS Compliance document page10)

Page 7 of the TSS Explanatory Statement lists a set of "Draft Decision considerations" and provides Powercor responses. We note the following three considerations and Powercor responses:

Regarding perceived lack of customer response to time-of-use tariffs, Powercor says:

"If this is correct, then it does not change the fact that there is negligible observed response to network time-of-use price signals."

The draft Decision urges Powercor to "Have a more ambitious transition path that is still consistent with Victorian Government's requirements." They respond with:

"This has already been fully explored and the current proposal to assign new connections, new solar customers, multi-phase upgrades and fast EV chargers to time-of-use tariffs is the best we can achieve."

The Draft Decision also encourages "Considering a tariff or trial tariff that sends price signals for small customers (charges and/or rewards) with flexible load to respond to critical peak events." Powercor responds with:

"Our Revised Proposal proposes an innovation project for us to trial dynamic pricing."

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 Powercor small customers in the 2026-31 period.

4.5.4 CCP32 observations/advice

CCP32 observes the CPU businesses, including Powercor as taking a fairly 'softly softly' approach to tariffs. They need to comply with Victorian Government requirements and be responsive to customer wariness on tariff changes. We are supportive of the types of tariff trials that the CAP is encouraging.

The AER has also asked CCP32 "whether Powercor undertook any targeted engagement with business customers who would be impacted by the introduction of 2 medium business tariffs. We understand that the engagement undertaken on network tariffs was joint, across the three CPU businesses as they have in place the same tariff structures for customers across all three networks.

Tariffs were discussed with the CAP and were part of BAU bi-lateral discussions with some medium sized businesses.

Developing tariffs that provide signals to both retailers and end customers about efficient use of electricity networks, consider the changing electricity market dynamics associated with the transition to net zero and have acceptability from consumers with low trust in the electricity market after two decades of electricity prices rising faster than CPI is extremely challenging. Appropriate and acceptable tariffs require 'deft hands' simultaneously from government policy, businesses and market bodies. The CPU business TSS approaches are not unreasonable in this context.

CCP32 notes that all five 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 joint campaign in conjunction with retailers and the Victorian Government could be a more cost-effective option for a broad state-wide information campaign.

4.6 Key topic: Public Lighting

4.6.1 What the AER said in the DD

The Draft Decision said:

> *"Our draft decision is to not accept Powercor'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 decrease certain hourly rate inputs and for more mechanical changes related to updated inflation and labour escalators inputs."*

and

> *"We also encourage Powercor 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" (page 35 Draft Decision)*

4.6.2 Relevant Engagement

The Draft Decision asked Powercor to engage further, largely in response to issues raised in a submission from the Victorian Greenhouse Alliance. As a result a webinar was conducted in August 2025 with 134 stakeholders invited and 25 participating. A follow up survey was also conducted. Topics covered included accelerating the LED replacement program, a separate tariff for "Category P LED lamps and savings for major road lights being transitioned to LED "through smart lighting."

4.6.3 What was proposed in the RRP

Powercor has revised its public lighting proposal in the Revised Proposal with main changes being:

- *"Included an accelerated replacement of non-LED lights over the next regulatory period, with incremental costs recovered from replacement lights over the remainder of the regulatory period. In our consultation we demonstrated that the additional charge for an accelerated replacement light would be roughly offset by the lower*

operation, maintenance, repair and replacement (OM&R) charge for the LED light and the energy savings from the replacement LED light
- *Included infill replacement of PE cells with smart PE cells on all major road lights by the end of the regulatory period*
- *Included a separate charge for non-standard LED lamps (corncobs)." (page 77 Revised Proposal)*

4.6.4 CCP32 observations/advice

The Draft Decision identified a clear focus for engagement, based on responses to the Issues Paper and Powercor has responded with a targeted engagement program. It appears to CCP32 that Powercor has responded positively to the advice received from engagement.

We note that 25 of 134 invitees responded to the invitation to participate in the webinar, suggesting to us that the groups for whom public lighting is an important issue have responded and been part of discussions, others with less direct interest have not participated in the process.

4.7 Key topic: Innovation Allowance

4.7.1 What the AER said in the DD

AER said:

> *"We recognise the importance of innovation investment in supporting the energy transition and protecting consumers. There is a need for trials and pilots to test and explore new ideas, concepts and technology before committing to implementation of solutions and rolling these into business-as-usual activities. We also recognise Powercor's consumer engagement on innovation-related expenditure. However, we have not accepted Powercor's forecast in full. We have accepted the forecast for some projects as we found that these projects align with the criteria for ex-ante innovative projects."*

4.7.2 Relevant Engagement

The Innovation Allowance was discussed at the July 2025 CAP meeting with a focus on the Governance Approach. Engagement was at IAP2 level "Involve" with some discussion also about how the fund could be enhanced.

4.7.3 What was proposed in the RRP

The original proposal for an innovation allowance was for $20m, reduced to $4.1m in the Draft Decision with the Revised Proposal being for $10.7m.

Powercor says that in response to the Draft Decision they have:

- *"provided additional information on each of our proposed initiatives and how they meet the AER's innovation criteria and expenditure objectives*
- *expanded our forecast initiatives for the full five-year regulatory period*
- *provided a complete governance framework, developed in collaboration with the Customer Advisory Panel (CAP), to ensure transparency and prioritisation of customer benefits." (page 2, Revised Proposal Innovation Allowance attachment)*

4.7.4 CCP32 observations/advice

Powercor has given good levels of engagement attention to the Innovation Fund Allowance during 2025 and has provided a clear focus on governance with an openness to apply advice provided from their CAP.

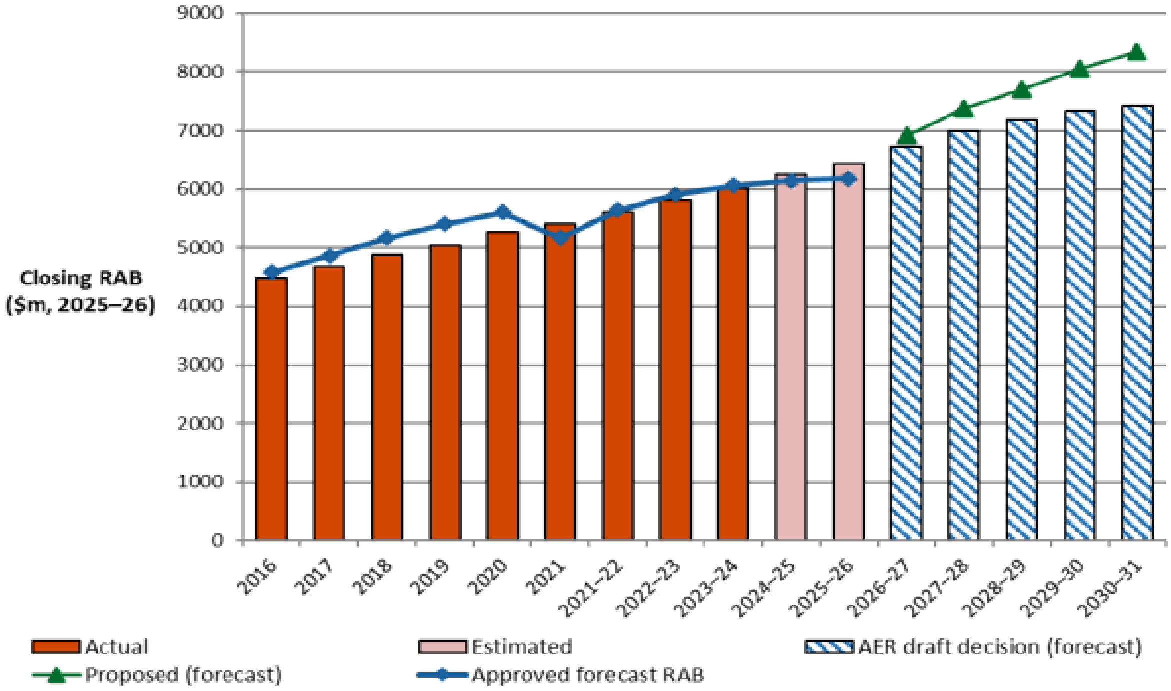
We note that the Draft Decision approved application of the Demand Management Innovation Allowance Mechanism (DMIAM), meaning that there is also opportunity for demand management specific innovation.

Our observation is that Powercor has taken advice from their engagement and applied it appropriately in their Revised Proposal. The appetite for innovation opportunities remains solid with the CAP.

4.8 Key topic: RAB

4.8.1 What the AER said in the DD

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



Source: AER analysis.

The Draft Decision also says:

> *"Powercor's RAB per unit of energy consumption increases moderately in the first 2 years followed by forecast declines out to 2030–31 driven by increased rates of forecast energy consumption, which more than offsets the projected growth to the RAB."*

4.8.2 Relevant Engagement

There was no 'direct' engagement on RAB implications of the Revised Proposal during 2025. Rather, it was implicit in capex considerations, see above.

4.8.3 What was proposed in the RRP

Powercor has …

> *"… accepted the AER's draft decision asset classes and asset lives, with forecast regulatory depreciation also calculated in accordance with the draft decision but updated for FY25 actuals." (Revised Proposal page 17)*

4.8.4 CCP32 observations/advice

Powercor has responded to the Draft Decision in application of the "roll forward model."

RAB impacts of revenue proposals continue to be of high importance for current and particularly future consumers. Maintaining intergenerational equity is important for CCP and, by our understanding of the CAP, important to them too. The declining RAB per unit of energy consumption is a good outcome for the 2026-31 regulatory period, relying on increased electricity throughput for this decline. If actual demand is lower than forecast, then close attention will need to be given to RAB implications and the rising WACC that consumers pay. We suggest that this is a question that should receive some attention for the 2031-36 regulatory period.

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 Version 2.0.[5] The Draft Decisions include a claim that customers are willing to pay for the improved services relating to new connections[6].

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

[5] 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

[6] 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

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 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 be impacted the CSIS.[7]

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.

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

<u>Timing of feedback</u>

Design and implementation of a compliant CSIS scheme is a lengthy and complex undertaking, requiring significant and targeted engagement with end use customers. 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.

An important message for businesses is that engagement on a CSIS must start early in the regulatory cycle. CCP32 observe that it is almost impossible for a business to conceive, co-design, engage on and validate a compliant CSIS in less than 12 months.

[7] 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

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 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.[8]

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 mechanism[9]. 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.

[8] https://www.aer.gov.au/documents/asd-ausnet-edpr-2026-2031-regulatory-proposal-31-jan-2025, p. 262
[9] 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

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'[10]. The 4 DNSPs jointly obtained legal advice[11] and a consultant's report[12] 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 potential revenue windfall, 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.[13] 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 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.

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

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

[12] https://www.aer.gov.au/documents/jen-houston-kemp-rp-att-06-07-victorian-dnsp-insurance-premiums-november-2025

[13] 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

6 CCP32 Advice Summary

We observe that much of the Draft Decision has been accepted by Powercor and where they are proposing higher allocations than given in the Draft Decision, there has, in general, been a solid increase in the level of detail to justify the proposed expenditure.

Where consumer engagement is relevant to Revised Proposal expenditures, we observe that there is solid consumer support for projects, notwithstanding our lack of ability to observe engagement activities. The continuing question is whether the AER now considers the reproposed projects that were deemed to be neither prudent nor efficient in the Draft Decision now meet these criteria as well as retaining consumer support.