

Final decision

AusNet Services, Jemena, CitiPower, Powercor
and United Energy distribution determinations
1 July 2026 – 30 June 2031

Attachment 12 – Control mechanisms

April 2026

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AER reference: AER23008246 - AER23008250

Amendment record

Version	Date	Pages
1	30 April 2026	40

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12 Control mechanisms

Control mechanisms impose limits over the prices of direct control services (standard and alternative control services) and/or the revenues that distribution network service providers (distributors) can recover from customers for these services. For standard control services, the National Electricity Rules (NER) require the control mechanism be of the prospective CPI-X form (or some incentive-based variant).¹

The forms of the control mechanisms that will apply to a distribution determination and the formulae that give effect to those control mechanisms are considered during the framework and approach (F&A) stage. There are limited circumstances where the AER may depart from the control mechanisms set out in the F&A paper.² For example, we can only depart from the formulae if we consider there has been a material change in circumstances.

This attachment discusses for the Victorian distributors:³

- the form and formulae of the control mechanisms for standard control services⁴
- the form and formulae of the control mechanisms for alternative control services⁵
- how compliance with the control mechanisms is to be demonstrated,⁶ including the mechanism through which the distributors will recover distribution revenues and account for revenue over or under recovery
- how the distributors are to report on their recovery of designated pricing proposal charges (largely transmission costs passed on by distribution networks) and jurisdictional scheme amounts, including adjustments for over or under recovery of these amounts⁷
- other mechanisms that support the control mechanisms and compliance with regulatory settings.

We apply the mechanisms addressed in this attachment, including all related formulae and interpretations, through our standardised annual pricing models.

12.1 Final decisions

Our final decisions for the Victorian distributors are as follows:

- The form of control mechanism for standard control services is a revenue cap. Section 12.5 provides our final decisions including the revenue cap formulae for standard control services (Figure 12-1).

¹ NER, cl. 6.2.6(a).

² NER, cll. 6.12.3(c) and (c1).

³ For the avoidance of doubt these are AusNet Services, Jemena, CitiPower, Powercor and United Energy.

⁴ NER, cl. 6.12.1(k).

⁵ NER, cl. 6.12.1(l).

⁶ NER, cl. 6.12.1(m).

⁷ NER, cll. 6.12.1(s) and (t).

- The form of control mechanism for alternative control services – metering services is a revenue cap. Section 12.6.1 provides our final decisions including the revenue cap formulae for metering services (Figure 12-2).
- The form of control mechanism for all other alternative control services is a price cap. Section 12.6.2 provides our final decisions which include:
 - The price cap formulae for fee-based ancillary network services and public lighting services (Figure 12-3).
 - The price cap formulae for quoted ancillary network services (Figure 12-4).
- The mechanism and formulae to demonstrate compliance with the side constraint for standard control services are provided in Appendix A (Figure A-1). The side constraint mechanism is also discussed in detail in Section 12.5.5.
- The mechanism and formulae to demonstrate compliance with the side constraint for metering services are provided in Appendix A (Figure A-2).
- The mechanisms to demonstrate compliance with the revenue cap for standard control services are the unders / overs statement and account. These mechanisms are provided in Appendix B.
- The mechanisms to demonstrate compliance with the revenue cap for metering services are the unders / overs statement and account. These mechanisms are provided in Appendix B.
- The mechanisms to demonstrate compliance with reporting of designated pricing proposal charges and jurisdictional scheme amounts are the relevant unders / overs statements and accounts. These mechanisms are provided in Appendix B.
- The templates for demonstrating compliance with the revenue caps, side constraints, and pass through of designated pricing proposal charges and jurisdictional scheme amounts using these mechanisms, as well as demonstrating compliance with the price caps for alternative control services are the standardised pricing models. These templates are addressed in Appendix C.
- Other rules and notes relating to the demonstration of compliance within these mechanisms, including rounding, are provided in Appendix D.

12.2 Overview of revised proposals

The Victorian distributors' revised proposals applied the form of control mechanisms and the formulae to give effect to those mechanisms as set out in our draft decisions.⁸

⁸ AusNet, *EDPR Revised Proposal 2027-31*, December 2025, p. 301; CitiPower, *Revised Proposal 2026-31 – Revenue and expenditure forecasts*, December 2025, pp. 20, 63; Jemena, *JEN – 2026-31 Revised Proposal*, December 2025 p. 53; Powercor, *Revised Proposal 2026-31 – Revenue and expenditure forecasts*, December 2025, pp. 19, 76; United Energy, *Revised Proposal 2026-31 – Revenue and expenditure forecasts*, December 2025, pp. 19, 59; AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025.

12.3 Stakeholder feedback

We did not receive any stakeholder feedback on the control mechanisms in response to our draft decisions or the Victorian distributors' revised proposals.

In considering substantial revisions to the side constraint mechanism, we undertook focussed stakeholder engagement. This was due to the timing of our engagement with this issue (mid to late March) and the complexity of the mechanism. We sought engagement from all distributors across the National Electricity Market (NEM), as well as Energy Consumers Australia, Energy Networks Australia, and the Justice and Equity Centre.⁹

Stakeholders provided unanimous support for revising the mechanism to resolve the cross-subsidy issue arising from large customers on new site-specific tariffs. Stakeholders were split across two options to resolve the issue, both producing the same outcomes but trading off simplicity for transparency. This is discussed further in Section 12.5.5.

12.4 Assessment approach

Our approach to assessing the form of control mechanisms is unchanged from our final F&As, which had regard to the requirements set out in the NER.¹⁰

The final F&As set the form of control mechanism and binds our determinations. However, some parameters of the formulae were left open so they can be better defined in our determinations.¹¹

We may only make changes to the formulae specified in the F&As where we are satisfied that there has been a material change in circumstances.¹² If we are satisfied that a material change in circumstances has occurred, then we would either propose changes or consider the merits of proposed changes to the formulae as relevant.

Consistency of regulatory arrangements for similar services is a matter the AER must have regard to when considering control mechanisms as described in the NER.¹³ We consider there are benefits in maintaining a consistent approach to the control mechanisms across distributors within the same jurisdiction and across jurisdictions where possible, subject to specific circumstances and new information that becomes available over time. The benefits of consistency in approach include accessibility for stakeholders, and the ability to benchmark and report.

⁹ AER, *FOR FEEDBACK – Proposed revisions to side constraint mechanism to account for new large site-specific customers*, March 2026.

¹⁰ NER, cll. 6.2.5(c) and (d).

¹¹ AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, pp. 10–15.

¹² NER, cll. 6.12.3(c) and (c1).

¹³ NER, cll. 6.2.5(c)(4) and (d)(4).

12.5 Final decisions for standard control services

The following sets out our final decisions on the control mechanism formulae for standard control services and provides further discussion of the parameters of the relevant control mechanism formulae. It also sets our final decisions in relation to:

- deliberately under-recovered revenue
- unpaid network charges from retailer of last resort events
- the reporting of designated pricing proposal charges
- the reporting of jurisdictional scheme amounts
- the rounding of inputs in annual pricing proposals.

12.5.1 Control mechanism formulae for standard control services

Our final decisions on the formulae that give effect to the standard control services control mechanism is to maintain the formulae set out in the final F&As and our draft decisions, with minor updates to improve definitions, outlined in Section 12.5.2.¹⁴ Figure 12-1 sets out revenue cap formulae and definitions for variables for standard control services.

Figure 12-1 Revenue cap formulae for standard control services

Formula	Equation	where
1.	$TAR_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij}$	$i = 1, \dots, n$ $j = 1, \dots, m$ $t = 1, 2, 3, 4, 5$
2.	$TAR_t = AAR_t + I_t + B_t + C_t$	$t = 1, 2, 3, 4, 5$
3.	$AAR_t = AR_t$	$t = 1$
4.	$AAR_t = AAR_{t-1} \times (1 + \Delta CPI_t) \times (1 - X_t)$	$t = 2, 3, 4, 5$
5.	$B_t = b_t + A_t$	$t = 1, 2, 3, 4, 5$
6.	$b_t = -O_t \times (1 + WACC_t)^{0.5}$	$t = 1, 2, 3, 4, 5$
7.	$A_t = a_t^1 + a_{t-1}^2 \times (1 + WACC_t) + a_{t-2}^3 \times (1 + WACC_{t-1}) \times (1 + WACC_t)$	$t = 1, 2, 3, 4, 5$
8.	$WACC_t = (1 + rvWACC_t) \times (1 + CPI_t) - 1$	$t = 1, 2, 3, 4, 5$

where:

Variable	
t	the relevant regulatory year, with t = 1 being the 2026–27 financial year. For example, where t = 1 = 2026–27, t-1 = 2025–26, t-2 = 2024–25, and t-3 = 2023–24.
TAR _t	the total annual revenue for year t, calculated as per formula 2 above.

¹⁴ AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 10; AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 5–6.

Variable	
p_t^{ij}	the price of component 'j' of tariff 'i' for year t.
q_t^{ij}	the forecast quantity of component 'j' of tariff 'i' for year t.
AR_t	the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t.
AAR_t	the adjusted annual smoothed revenue requirement for year t, calculated as per formulae 3 and 4 above.
I_t	<p>the sum of incentive scheme adjustments for year t. Where applicable, incorporates revenue adjustments relating to the outcomes of:¹⁵</p> <ul style="list-style-type: none"> • the service target performance incentive scheme (STPIS) (S-factor) in relation to regulatory year t-2 • the demand management incentive scheme (DMIS) in relation to regulatory year t-2 • the demand management innovation allowance mechanism (DMIAM) relating to the carryover amount from the 2021–26 regulatory control period to be applied in regulatory year t = 2 only • the customer service incentive scheme (CSIS) (H-factor) in relation to regulatory year t-2 • the export service incentive scheme (ESIS) (E-factor) in relation to the regulatory year t-2 • the fire-start incentive scheme (F-factor) in relation to the regulatory year t-3 • any other related incentive schemes as applicable that are to be applied in year t.
B_t	<p>the sum of annual adjustment factors for year t, calculated as per formula 5 above. It includes:</p> <ul style="list-style-type: none"> • the true-up of any over or under recovery of actual revenue (b factor) collected through distribution use of system (DUoS) charges calculated using the method outlined in formula 6. • any other bespoke adjustments the AER deems necessary (A factor). These include, but are not limited to, residuals of jurisdictional scheme amounts upon cessation, applicable licence fee payments, or other true-ups not provided for elsewhere. These adjustments will apply the time value of money where appropriate, calculated as per formula 7 above.
C_t	the approved pass through amounts (positive or negative) for year t, as determined by the AER. This includes amounts related to any concessional finance adjustment made by the AER. It also includes any approved annual or end of period adjustments for year t.

¹⁵ Incentive schemes listed may not apply to all distributors and are listed for consistency across the NEM.

Variable	
ΔCPI_t	the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) Quarterly All Groups, Australia ¹⁶ from December in year t-2 to December in year t-1. For example, for 2027–28, t-2 is December 2025 and t-1 is December 2026.
X_t	the X factor in year t, incorporating annual PTRM updates for the trailing cost of debt.
b_t	the true-up for the balance of the DUoS unders and overs account in year t, calculated as per formula 6 above.
O_t	the opening balance of the DUoS unders and overs account in year t as calculated by the method in Appendix B.
$WACC_t$	the approved weighted average cost of capital (WACC) used in regulatory year t in the DUoS unders and overs account in Appendix B. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money.
A_t	the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above.
a_t^1	the bespoke adjustment '1' for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years and is not intended to be limited to these adjustments.
$rvWACC_t$	the real vanilla WACC provided in the annually updated PTRM for year t.

12.5.2 Definition of formulae parameters

Our final decisions adopt the definitions of formulae parameters from our draft decisions,¹⁷ with minor revisions to provide more detail and clarity, and to include provision for amounts related to concessional finance adjustments (CFAs). These definitions are as follows:

- I factor: This adjustment will continue to adjust revenue for applicable incentive schemes. It will be the sum of any STPIS, DMIS, DMIAM carryover from the previous regulatory period, CSIS, ESIS, and F-factor payments as well as any other future applicable incentive schemes. For avoidance of doubt, this excludes the efficiency benefit sharing scheme and the capital expenditure sharing scheme payments, which are applied through the annual smoothed revenue and / or X factors, as considered through the regulatory determination process.
- B factor: This adjustment will continue to include true-ups for any under- or over-recovery of revenue. We have included a component to this definition to include any other bespoke adjustments that the AER may specify, or that currently exist (for example residuals of jurisdictional scheme amounts upon cessation – addressed in Appendix B).

¹⁶ If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

¹⁷ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 6–7.

- C factor: This adjustment will continue to apply to cost pass-throughs that are not otherwise accounted for in the annual smoothed revenue and / or X factors. This includes those that are distributor-initiated as well as Retailer of Last Resort (ROLR) cost recovery scheme distributor payment determinations, made as a result of cost recovery applications by retailers in the ROLR program. These distributor payment determinations are deemed to be a regulatory change positive pass through event for the purposes of the NER. This adjustment also includes provision for amounts related to concessional finance adjustments made by the AER. This follows the AEMC’s rule change ‘Sharing concessional finance benefits with consumers’.¹⁸
- X factor: This adjustment will continue to apply the real price path of our determinations and will continue to incorporate adjustments to the PTRM for the trailing cost of debt, contingent projects, and cost pass throughs.

We have also clarified that the annual percentage change in the ABS’ CPI relates to the quarterly index, consistent with our historical application, and the definition of CPI in chapter 10 of the NER.

These definitions include minor changes that build on other revisions made to definitions in our draft decisions. Our draft decision revisions included a more explicit catch-all component under the B factor, represented as the A factor.¹⁹ This incorporated adjustments for the transfer of jurisdictional scheme true-ups when a jurisdictional scheme ends without any other such scheme being in operation as introduced in the recent 2025–30 determinations (this is addressed further in Appendix B of these final decisions), and other payments that are not captured anywhere else (e.g., licence fees).

12.5.3 Deliberately under-recovered revenue

We accept there are times when distributors may decide to deliberately recover less than their allowed revenue. This contrasts with unintentional under-recovery due to a clerical error or a natural variation between forecast quantities of a service offered and actual quantities achieved. In the event of a deliberate under-recovery, this revenue will be discounted from revenue variances in the unders and overs statements and by extension will therefore subsequently not be allowed to be recovered from customers in future years (i.e., it will not increase the total allowable revenue in future years). More detail on how this is accounted for in the unders and overs statements is provided in Appendix B. This is unchanged from our draft decisions.²⁰

12.5.4 Unpaid network charges from retailer of last resort events

During the 2021–26 period, we saw an increase in ROLR events. These events generally involve the insolvency of a retailer, resulting in an unpaid balance of network charges that are not recovered from that retailer.

¹⁸ AEMC, *Rule determination National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024*, 21 March 2024.

¹⁹ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 6–7.

²⁰ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 7.

In such events, distributors can recover these amounts through a cost pass through. However, due to the substantial number of qualifying cost pass through events in recent years, we have introduced a line item in the unders and overs statement to account for these events (see Table B-1 in Appendix B). This removes the administrative burden to both distributors and the AER of a cost pass through application. We consider the recovery of these amounts to be minor in nature. Further, this same line item can be used to return amounts that are subsequently recovered through any insolvency processes or similar. This is unchanged from our draft decisions.²¹

12.5.5 Side constraint mechanism

For standard control services, the NER provides for additional consumer protections through the operation of a side constraint on tariffs.²² In general terms, this mechanism operates to ensure that any annual increases in revenues for a particular tariff class do not exceed increases provided under the control mechanism by more than 2%. That is, if total revenues (under the revenue cap form of control) are increasing by 10%, revenues for each tariff class cannot increase by more than 12%. This is intended to limit the impact of network price changes by reducing cross subsidies from arising, including where a particular group of customers experience substantially lower increases, or substantial decreases, while other customers see substantial increases.

The specific requirement is that the expected weighted average revenue that may be recovered from a tariff class must not exceed the corresponding expected weighted average revenue for the preceding year by more than the permissible percentage.²³ In accordance with the NER, the permissible percentage increase is the greater of $CPI - X + 2\%$ or $CPI + 2\%$.²⁴ The NER requires us to adjust the permissible percentage to ignore the recovery of certain revenues, including cost pass through amounts, incentive schemes, capital expenditure reopeners, and revocation and substitution of determinations, and to remove (disregard) their impact for determining compliance with the side constraints.²⁵

The $CPI - X$ component of the permissible percentage, and the disregarding of other certain revenues, reflects the allowed revenue movements under the revenue cap form of control, with the 2% being the additional allowed movement for a tariff class under the side constraint mechanism.

Our final decisions are to apply the revised side constraint mechanism, which we previously developed as part of our annual pricing process review²⁶ and applied in our draft decisions,²⁷

²¹ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 8.

²² NER, cl. 6.18.6.

²³ NER, cl. 6.18.6(b).

²⁴ NER, cl. 6.18.6(c).

²⁵ NER, cl. 6.18.6(d).

²⁶ AER, *Annual pricing process review – Side constraint mechanism – Final position paper*, November 2022.

²⁷ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 8, 18–21.

with some revisions. Changes to the side constraint mechanism in comparison to the 2021–26 period, as applied in our draft decisions, are:

- including a Q factor in the mechanism for changes in prices attributable to movements in quantities from the preceding year, calculated in relation to total quantity movements and revenues
- including a D factor in the mechanism to ensure the tariff class revenues are comparable to the $CPI - X + 2\%$ permissible percentage.

Changes to the side constraint mechanism in comparison to our draft decisions are:

- introduction of the term ‘weighted average price movement’ (WAPM), better reflecting the calculation of the price movement measured against the allowed threshold (see next dot point), and the differentiation from the ‘weighted average revenue’ considered by the NER, discussed further in Section 12.5.5.1
- introduction of the term ‘maximum allowed price movement’ (MAPM), reflecting the allowed threshold calculated for a tariff class under the side constraint mechanism to avoid confusion with the underlying permissible percentage defined by the NER, discussed further in Section 12.5.5.1
- revisions to better define where the components are considered and / or calculated at the tariff class level or the total revenue level
- including a N factor in the side constraint mechanism to account for new tariffs introduced throughout the period (generally site-specific tariffs), calculated in relation to the relevant tariff class, discussed further in Section 12.5.5.2.

As we did not consider these changes in our draft decisions, we consulted with the Victorian distributors on the more substantive revisions (introduction of the N factor and tariff class notation) prior to making these final decisions.²⁸ As a part of this consultation process we also engaged other distributors across the NEM, given, as noted above, we consider there are benefits in maintaining a consistent approach to the control mechanisms across distributors within and across jurisdictions where possible. We also engaged Energy Consumers Australia, Energy Networks Australia, and the Justice and Equity Centre.

The formulae that give effect to this mechanism are set out in Appendix A.

12.5.5.1 Relating the side constraint mechanism to the requirements in the NER

The side constraint mechanism is complex and it can be confusing to interpret how it connects with the underlying provisions in the NER. To address some of this complexity and any confusion, and to support the other updates we have made as set out in Section 12.5.5.2, we have made some changes to make the mechanism more accessible. In particular, we have introduced new terminology to make it clearer what we are looking at when testing compliance under the side constraint mechanism, as well as better notating revenue and other calculations to differentiate between tariff class and total levels. The

²⁸ AER, *FOR FEEDBACK – Proposed revisions to side constraint mechanism to account for new large site-specific customers*, March 2026.

updated side constraint mechanism in Appendix A compares the WAPM against the MAPM (which includes the CPI – X + 2% permissible percentage). Below we step out each of these components and the logic for these changes.

The WAPM represents the weighted average movement in price for each tariff class by holding quantities constant across the relevant years. The quantities used are for the upcoming year, otherwise referred to as year t . The WAPM and the underlying revenue calculations (also referred to as side constraint revenues) for each year are all calculated at the tariff class level (i.e., calculated values will differ across tariff classes). The key change relative to the draft decisions is to introduce into the formula the WAPM term as a labelled output reflecting the side constraint revenue calculations across the respective years. This does not change the calculation of the side constraint revenues.

The MAPM represents the allowed threshold movement that the WAPM for each tariff class is measured against (i.e., the WAPM cannot be greater than the MAPM). The MAPM consists of:

- the permissible percentage as defined by the NER (CPI – X + 2%, or CPI + 2% where $X > 0$), being the annual CPI escalation, the price path (X factor) approved in the determination and adjusted for annual return on debt updates, and the allowed 2% threshold (consistent with NER cl. 6.18.6(c))
- adjustments to disregard the recovery of incentive schemes, cost pass-throughs and other revenue adjustments that are factored into the WAPM (consistent with NER cl. 6.18.6 (d))
- adjustments to account for the movement in quantities from the previous year, which impact prices under a revenue cap form of control (combined with the WAPM this provides consistency with considering weighted average revenues as per NER cl. 6.18.6(b))
- an adjustment to account for the impact of new tariffs in a tariff class, which increase revenues for that tariff class (this is discussed further in Section 12.5.5.2).

The key change relative to the draft decisions, other than the introduction of a new adjustment for new tariffs, is to introduce into the formula the MAPM term as a labelled output reflecting the allowed threshold against which the WAPM is compared and must be lower than or equal to. Previously the MAPM was labelled as the permissible percentage. We consider it is clearer to label this threshold as the MAPM to better reflect that this includes not just the permissible percentage, but also other adjustments to be consistent with the NER.

As the permissible percentage and the adjustments related to incentive schemes, cost pass throughs and similar components are related to adjustments made to allowed revenues, these components of the MAPM are considered at the revenue level. This reflects that a 10% increase in allowed revenue should be, on average, applied as a 10% increase to revenues from each tariff class or customer group, and that variations in tariff class revenue movements from this average should be constrained by the 2% threshold allowed by the NER.

The adjustment to account for the impact of new tariffs (N factor) is calculated at the tariff class level. That is, different N factors are calculated for different tariff classes based on the new tariffs in that tariff class (if any). This is because this adjustment is intended to disregard the impact of new tariffs in the WAPM, which is calculated at the tariff class level, and the impact of these new tariffs varies across tariff classes. It is included in the MAPM for transparency and consistency with other adjustments. This is discussed further in Section 12.5.5.2.

The adjustment to account for the movement in quantities (Q factor) is calculated at the total revenue level. This adjustment was considered and introduced in our 2022 annual pricing process review. It was considered appropriate to be applied at a total revenue level, consistent with other adjustments at the time, to address issues in different growth trends at the aggregate level that were not considered when moving to a revenue cap form of control. In considering the new N factor at the tariff class level, it has been identified that the Q factor may also need to be considered at a tariff class level in future processes. This is discussed further in Section 12.5.5.3.

12.5.5.2 Accounting for new tariffs

In the 2026–27 annual pricing proposals for non-Victorian distributors, we engaged with an issue where customers on new site-specific tariffs were causing issues of compliance with the applicable side constraint mechanism as set in the 2024–29 and 2025–30 determinations. This was mostly related to large customers with significantly large loads, and therefore significantly large revenue recovery from those customers.²⁹

This issue posed a problem: compliance with the applicable side constraint mechanism required price reductions for these large customers and other large customers in the same tariff class, and price increases for other tariff classes, including small customers. This results in these large customers potentially experiencing prices below the efficient cost to serve them, and small customers cross subsidising these large customers. Both of these outcomes are not desired and are not in line with the NER's Pricing Principles.

To address this issue, following consultation, we have introduced the N factor, which disregards the impact of these new tariffs by including an additional allowance in the MAPM to account for revenues recovered from these new tariffs (that will be included in calculations of the WAPM). In considering this issue, we examined multiple options, including removing the new tariffs from the WAPM calculation, and applying the N factor at a revenue cap level (i.e., the same adjustment across all tariff classes).

As noted above, we engaged directly with distributors across all jurisdictions, as well as some consumer groups, as this issue was identified after our draft decisions and broader consultation processes. Feedback on the need to resolve this issue to avoid adverse

²⁹ Endeavour Energy, 2026–27 – SCS pricing model, March 2026; Essential Energy, 2026–27 – SCS pricing model, March 2026; TasNetworks, 2026–27 – SCS pricing model, March 2026.

outcomes of small customers cross subsidising large customers was unanimous.³⁰ Feedback on the best option for resolution of the issue was mixed between our chosen option of applying the N factor at the tariff class level and removing the new tariffs from the WAPM calculation. These two options produce the same outcome, with a slight majority of feedback, including from all the Victorian distributors, supporting removing the new tariffs from the WAPM calculation as a simpler approach.³¹

Our final decisions adopt the N factor at the tariff class level. This is because we consider this approach:

- avoids cross-subsidies across customer groups
- is more transparent and more consistent with our current mechanism, where adjustments are made in the MAPM to disregard other components of revenue, than other options
- will involve the same / similar processes and effort to track any new tariffs and revenues from year to year as other options.

The addition of the N factor is supported by the consideration that the worst possible outcome is the same as would apply under the previous side constraint mechanism, but the best possible outcome is where the benefits of new large customers under a revenue cap form of control can be shared across customers, and would not lead to large customers paying prices lower than the efficient cost to serve those customers.

12.5.5.3 Accounting for significant growth in a tariff class

In the 2026–27 annual pricing proposals for non-Victorian distributors, we engaged on a further issue where customers on existing tariffs with significantly increasing electricity usage could cause issues of compliance with the applicable side constraint mechanism. This was mostly related to large customers with large loads that are significantly increasing, and therefore significantly increasing revenue recovery from those customers.

This issue is somewhat addressed by the Q factor introduced in our draft decisions following our 2022 annual pricing process review. However, the Q factor is applied at the total revenue level, which means that significant increases for a particular tariff class could significantly exceed the allowance under the Q factor because it is shared across all tariff classes.

This may be resolved by adjusting the Q factor to be measured on a tariff class level. However, unlike the introduction of the N factor, adjusting the Q factor to the tariff class level could produce worse outcomes than the previous side constraint mechanism. It also introduces additional complexity in that it would require additional data not currently present

³⁰ The following stakeholders supported such a revision in response to our request for feedback (AER, *FOR FEEDBACK – Proposed revisions to side constraint mechanism to account for new large site-specific customers*, March 2026). Energy Consumers Australia, AusNet Services, CitiPower, Powercor, United Energy, Jemena, Energex, Ergon Energy, Ausgrid, Energy Networks Australia, SA Power Networks, Endeavour Energy, Evoenergy, Essential Energy, Energy Networks Australia.

³¹ The following stakeholders supported the removal of new tariffs from the WAPM calculation in response to our request for feedback (AER, *FOR FEEDBACK – Proposed revisions to side constraint mechanism to account for new large site-specific customers*, March 2026). AusNet Services, CitiPower, Powercor, United Energy, Jemena, Endeavour Energy, Evoenergy, Essential Energy.

in the pricing proposal models, being the allowed/forecast revenues for each tariff class for the previous year.

While not an issue we have resolved positions on in these final decisions, we will need to consider this further, including in relation to the applicable revenue cap form of control. At this stage, we consider the key issues we will need to consider further include whether:

- these large customers, who are generally on site-specific tariffs based on the underlying efficient costs to serve, should experience lower prices because of their increased usage
- the benefits of higher volumes, and lower prices, should be shared across all customers
- the benefits of higher volumes, and lower prices should only be provided to smaller customers considering the large customers are already priced based on the underlying efficient cost to serve them and that is unlikely to decrease under increased usage.

We will also need to consider whether the revenue cap form of control and side constraint mechanism are appropriate to be applied in their current forms and collectively to these large customers on site-specific tariffs and small customers alike. There may be reason for different forms of controls or application of the side constraint mechanism needing to apply to these customers differently. We will consider this further before and during the F&A process for the 2029–34 period for ACT, NSW, Northern Territory, and Tasmanian distributors.

12.5.6 Reporting on designated pricing proposal charges

We must decide how distributors will report on the recovery of designated pricing proposal charges for each year of the 2026–31 period and how to account for any over or under recovery of revenue associated with those charges.³²

We apply a mechanism, set out in Appendix B, to facilitate this reporting and account for the annual true-up of under and over recovery of revenue. This approach is similar to the distribution revenue unders and overs mechanism and is consistent with the NER requirements.³³ It is also consistent with the approach applied to distributors in other jurisdictions. This is unchanged from our draft decisions.³⁴

12.5.7 Reporting on jurisdictional scheme amounts

We must decide how distributors will report on the recovery of jurisdictional scheme amounts for each year of the 2026–31 period and how to account for any over or under recovery of revenue associated with those charges.³⁵

We apply a mechanism, set out in Appendix B, to facilitate this reporting and account for the annual true-up of under and over recovery of revenue. This approach is similar to the distribution revenue unders and overs recovery mechanism and is consistent with the NER

³² NER, cl. 6.12.1(s).

³³ NER, cl. 6.18.7.

³⁴ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 9.

³⁵ NER, cl. 6.12.1(t).

requirements.³⁶ It is also consistent with the approach applied to distributors in other jurisdictions. This is unchanged from our draft decisions.³⁷

12.5.8 Rounding of inputs in annual pricing proposal process

When reporting on compliance as part of the annual pricing proposal process each year of the 2026–31 period, we require that certain calculation inputs be used on an unrounded basis while others may be used on a rounded basis. The process for rounding and the specific inputs to be rounded are detailed in Appendix D. This is unchanged from our draft decisions.³⁸

12.6 Final decisions for alternative control services

The following sets out our final decisions on the control mechanism formulae for alternative control services and provides further discussion of the parameters of the relevant control mechanism formulae.

12.6.1 Control mechanism formulae for revenue-capped alternative control services

Our final decisions on the formulae that give effect to the control mechanism is to maintain the formulae set out in the final F&As³⁹ and our draft decisions,⁴⁰ with minor updates to improve definitions. Figure 12-2 sets out revenue cap formulae and definitions for variables for metering services.

Figure 12-2 Revenue cap formulae for metering services

Formula	Equation	where
1.	$\text{TARM}_t \geq \sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij}$	$i = 1, \dots, n$ $j = 1, \dots, m$ $t = 1, 2, 3, 4, 5$
2.	$\text{TARM}_t = \text{AAR}_t + B_t + C_t$	$t = 1, 2, 3, 4, 5$
3.	$\text{AAR}_t = \text{AR}_t$	$t = 1$
4.	$\text{AAR}_t = \text{AAR}_{t-1} \times (1 + \Delta\text{CPI}_t) \times (1 - X_t)$	$t = 2, 3, 4, 5$
5.	$B_t = b_t + A_t$	$t = 1, 2, 3, 4, 5$
6.	$b_t = -O_t \times (1 + \text{WACC}_t)^{0.5}$	$t = 1, 2, 3, 4, 5$

³⁶ NER, cl. 6.18.7A.

³⁷ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 9.

³⁸ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 9.

³⁹ AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 12.

⁴⁰ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 10–11.

Formula	Equation	where
7.	$A_t = a_t^1 + a_{t-1}^2 \times (1 + WACC_t) + a_{t-2}^3 \times (1 + WACC_{t-1}) \times (1 + WACC_t)$	t = 1, 2, 3, 4, 5
8.	$WACC_t = (1 + rvWACC_t) \times (1 + CPI_t) - 1$	t = 1, 2, 3, 4, 5

where:

Variable	Represents
t	the relevant regulatory year, with t = 1 being the 2026–27 financial year. For example, where t = 1 = 2026–27, t-1 = 2025–26, and t-2 = 2024–25.
TARM _t	the total annual revenue for metering services for year t, calculated as per formula 2 above.
p _t ^{ij}	the price of component 'j' of tariff 'i' for year t.
q _t ^{ij}	the forecast quantity of component 'j' of tariff 'i' for year t.
AR _t	the annual smoothed revenue requirement for metering services in the metering PTRM for year t.
AAR _t	the adjusted annual smoothed revenue requirement for metering services for year t, calculated as per formulae 3 and 4 above.
B _t	the sum of annual adjustment factors for year t, calculated as per formula 5 above. It includes: <ul style="list-style-type: none"> the true-up of any over or under recovery of actual revenue (b factor) collected through metering charges calculated using the method outlined in formula 6. any other bespoke adjustments the AER deems necessary (A factor). These adjustments will apply the time value of money where appropriate, calculated as per formula 7 above.
C _t	the approved metering pass through amounts (positive or negative) for year t, as determined by the AER. It also includes any approved annual or end of period adjustments for year t.
ΔCPI _t	the annual percentage change in the ABS CPI Quarterly All Groups, Australia ⁴¹ from December in year t-2 to December in year t-1. For example, for 2027–28, t-2 is December 2025 and t-1 is December 2026.
X _t	the X factor in year t, incorporating annual adjustments to the metering PTRM for the trailing cost of debt.
b _t	the true-up for the balance of the metering unders and overs account in year t, calculated as per formula 6 above.
O _t	the opening balance of the metering unders and overs account in year t as calculated by the method in Appendix B.

⁴¹ If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

Variable	Represents
$WACC_t$	the approved WACC used in regulatory year t in the metering unders and overs account in Appendix B. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money.
A_t	the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above.
a_t^1	the bespoke adjustment ‘1’ for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years and is not intended to be limited to these adjustments.
$rvWACC_t$	the real vanilla WACC provided in the annually updated metering PTRM for year t.

12.6.1.1 Definition of formulae parameters

Our final decisions adopt the definitions of formulae parameters from our draft decisions, with minor revisions to provide more detail and clarity.⁴² These definitions are as follows:

- B factor: This adjustment will continue to include true-ups for any under- or over-recovery of metering revenue. We have included a component to this definition to include any other bespoke adjustments that the AER may specify.
- C factor: This adjustment will continue to apply to cost pass throughs. These adjustments will be in line with the new cost pass through framework for metering services. We discuss this in detail in Section 12.6.1.2.
- X factor: This adjustment will continue to apply the real price path of our determinations and will continue to incorporate adjustments to the metering PTRM for the trailing cost of debt and cost pass throughs.

We have also clarified that the annual percentage change in the ABS’ CPI relates to the quarterly index, consistent with our historical application, and the definition of CPI in chapter 10 of the NER.

These definitions include minor changes that build on other revisions made to definitions in our draft decisions, which included a more explicit catch-all component under the B factor, represented as the A factor.⁴³

12.6.1.2 Cost pass-through mechanism

The NER provides a cost pass through framework for standard control services.⁴⁴ While a cost pass through adjustment has been included in the control mechanism formulae for metering services, it has not historically been used. To date, the existing framework for standard control services has been applied to metering but the process defined by the NER has not been fit for use for metering. Barriers to use of this framework for metering include

⁴² AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 11–12.

⁴³ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 11–12.

⁴⁴ NER cl. 6.6.1.

the administrative burden of using the standard control service cost pass-through framework for relatively smaller metering expenditure amounts and ambiguity around materiality thresholds. On materiality, for example, there is a question of whether the threshold is greater than 1% of the standard control service annual revenue requirement or the metering annual revenue requirement.

The intention of the standard control services cost pass through framework is to enable a distributor to recover the costs of defined yet unpredictable, high-cost events that are outside the control of a distributor (and not built into our distribution determination). We consider that the same intent would likely also apply for metering services, particularly given these services operate under a revenue cap and have a similar control mechanism to standard control services. Further, for metering services with emerging technologies and policies, some changes may also be unforeseen at the time of our final decisions.

Our draft decisions proposed a cost pass through framework for metering services for the 2026–31 period.⁴⁵ The Victorian distributors supported this proposed mechanism in their revised proposals either explicitly (Jemena), or implicitly through acceptance of our proposed control mechanisms (AusNet, CitiPower, Powercor, United Energy).⁴⁶ The Victorian distributors did not engage with the detail of how this cost-pass through framework would operate.

Our final decisions establish this cost pass-through framework for metering services with the following guidelines:

- Distributors are to submit a cost pass-through application for metering services to the AER before November prior to the year of recovery, being 5 months before the submission of the annual pricing proposal, or as otherwise agreed with the AER, and no later than 15 months after the costs have been incurred.⁴⁷ This 15 month timeline is intended to allow costs that are incurred within the 3 months prior to this submission timeline to be considered in the following year and provide sufficient time for a distributor to respond to the additional costs.
- Noting the above, distributors should engage the AER as soon as possible on any intended cost pass through application for metering. This will allow for a more streamlined consideration of the application.
- Distributors should include information about the metering cost pass through application in its formal pricing proposal (and preliminary pricing proposal if advised), as previously provided and updated in response to any request from the AER.

⁴⁵ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 12–13.

⁴⁶ AusNet, *EDPR Revised Proposal 2027-31*, December 2025, p.301; CitiPower, *Revised Proposal 2026-31 – Revenue and expenditure forecasts*, December 2025, p. 63; Jemena, *JEN - RP - Att 10-01 Advanced Metering Infrastructure - revised*, December 2025 pp. 23-24; Powercor, *Revised Proposal 2026-31 – Revenue and expenditure forecasts*, December 2025, p. 76; United Energy, *Revised Proposal 2026-31 – Revenue and expenditure forecasts*, December 2025, p. 59.

⁴⁷ An exception to the submission timeline is made in relation to cost pass throughs resulting from the accelerated rollout of smart meters as indicated for Jemena in Attachment 15 – Metering services.

- Information to be provided for the AER’s consideration in the forms noted above should include:
 - A detailed description of the proposed cost pass through, including the driver of the costs, why they could not be considered at the time of determination (e.g., legislation was not in place), justification that the costs are not already accounted for in the determination, and demonstration that these costs are unavoidable.
 - The proposed cost pass through amounts across operating expenditure (opex) and/or capital expenditure (capex), including a revised version of the final decision metering expenditure model and PTRM (where applicable), and detail on how the costs have been derived and are justified as being prudent and efficient.
 - Demonstration that the resulting cost pass through amounts are material, being more than 1% of the adjusted annual smoothed revenue requirement for metering services for the relevant years (AAR_t in Figure 12-2). Consistent with standard control services, and the thresholds established in the NER, we consider the 1% materiality threshold is appropriate but clarify that this is in relation to the metering services annual revenue requirement.
 - Description of any stakeholder engagement undertaken in relation to the increase in opex and capex and how this has been taken into account in the proposed cost pass through.
- The AER will engage with any application through the pre-lodgement engagement process. The AER will advise the distributor whether the proposed cost pass through amounts are appropriate to be included in the distributor’s formal pricing proposal. The AER will then subsequently formalise relevant amounts through the approval of the annual pricing proposal.

Consideration and approval of any proposed cost pass through amounts for metering services is contingent on sufficient notification and engagement in advance of submission with the preliminary pricing proposal. This pragmatic framework is not intended to significantly reduce the substantiation or considerations in relation to proposed cost pass through amounts, but to better define and simplify the process as it pertains to metering services.

For the avoidance of doubt, this only relates to metering services and does not impact the cost pass through framework that applies to standard control services, which is defined by the NER and discussed in Attachments 4 for AusNet Services, CitiPower, Powercor, and United Energy, or Section 2.8.1 of the Overview for Jemena.

12.6.1.3 Deliberately under-recovered revenue

Consistent with our approach for the standard control services revenue cap, deliberate under-recoveries of revenue will be discounted from revenue variances in the unders and overs statements and by extension will therefore subsequently not be allowed to be recovered from customers in future years. That is, it will not increase the total allowable

revenue in future years. More detail on how this is accounted for in the unders and overs statements is provided in Appendix B. This is unchanged from our draft decisions.⁴⁸

12.6.1.4 Unpaid network charges from retailer of last resort events

Consistent with our approach for the standard control services revenue cap, we have introduced a line item in the unders and overs statement to account for unpaid network charges resulting from ROLR events (see Table B-1 in Appendix B). We consider the recovery of these amounts to be minor in nature. Further, this same line item can be used to return amounts that are subsequently recovered through any insolvency processes or similar. This is unchanged from our draft decisions.⁴⁹

12.6.1.5 Side constraint mechanism

Unlike standard control services, the NER does not provide for a side constraint applicable to metering services. However, consistent with our historical approach, we consider it appropriate to apply a 2% side constraint to revenue-capped services. This provides protections for consumers from movements in metering prices that are significantly above the average price movement.

Our final decisions are to apply the revised side constraint mechanism which we developed as part of our 2022 annual pricing process review, adjusted where appropriate to reflect the revenue cap formulae for metering services.⁵⁰ The key changes to the side constraint mechanism in comparison to the 2021–26 period are:

- including a Q factor in the mechanism for changes in price attributable to movements in quantities from the preceding year
- including a D factor in the mechanism to ensure the revenues are comparable to the CPI-X plus 2 per cent threshold.

This is mostly unchanged from our draft decisions.⁵¹ We have made some revisions to make the mechanism more accessible, similar to the standard control services side constraint mechanism, as well as simplifying it to better reflect the simpler tariff structure for metering services. We have not introduced the same N factor to the side constraint mechanism for standard control services as new metering service tariffs are not introduced within the regulatory period. The formulae that give effect to this mechanism are set out in Appendix A.

⁴⁸ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 13.

⁴⁹ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 13.

⁵⁰ AER, *Annual pricing process review – Side constraint mechanism – Final position paper*, November 2022.

⁵¹ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 13–14.

12.6.2 Control mechanism formulae for price-capped alternative control services

Our final decisions on the formulae that give effect to the control mechanism are to maintain the formulae set out in the final F&As,⁵² with the exception of the price cap formulae for quoted services, where we have introduced a formula for the margin component. This is as per our draft decisions with only minor updates to improve definitions consistent with the updates made for standard control services and metering.⁵³ Figure 12-3 and Figure 12-4 set out the price cap formulae to apply for alternative control services (where applicable) in the 2026–31 period.

Figure 12-3 Price cap formulae for fee-based ancillary network services, public lighting, and metering exit fees

Formula	Equation	where
1.	$\bar{p}_t^i \geq p_t^i$	$i = 1, \dots, n$ $t = 1, 2, 3, 4, 5$
2.	$\bar{p}_t^i = \bar{p}_{t-1}^i \times (1 + \Delta\text{CPI}_t) \times (1 - X_t^i) \times (1 + A_t^i)$	$i = 1, \dots, n$ $t = 2, 3, 4, 5$

where:

Variable	Represents
t	the regulatory year with $t = 1$ being the 2026–27 financial year. For example, where $t = 1 = 2026–27$, $t-1 = 2025–26$, and $t-2 = 2024–25$.
\bar{p}_t^i	the cap on the price of service ‘i’ for year t . This should be rounded to two decimal places (see Appendix D). The initial value for $t = 1$ is to be decided in the distribution determination.
p_t^i	the price of service ‘i’ in year t .
\bar{p}_{t-1}^i	the cap on the price of service ‘i’ for year $t-1$.
ΔCPI_t	the annual percentage change in the ABS CPI Quarterly All Groups, Australia ⁵⁴ from December in year $t-2$ to December in year $t-1$. For example, for 2027–28, $t-2$ is December 2025 and $t-1$ is December 2026.
X_t^i	the X factor for service ‘i’ in year t . The value of this factor is as specified in Attachment 14 – Alternative control services or Attachment 15 – Metering services and / or associated models.

⁵² AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, pp. 14–15.

⁵³ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, pp. 14–15.

⁵⁴ If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

Variable	Represents
A_t^i	the sum of any adjustments for service 'i' in year t. This includes any bespoke adjustments the AER deems necessary, applying the time value of money where appropriate.

Figure 12-4 Price cap formulae for quoted services

Formula	Equation	Where
1.	$\bar{p}_t = \text{Labour}_t + \text{Contractor Services}_t + \text{Materials}_t + \text{Margin}_t + \text{Tax}_t$	t = 1, 2, 3, 4, 5
2.	$\text{Labour}_t = \text{Labour}_{t-1} \times (1 + \Delta\text{CPI}_t) \times (1 - X_t^i)$	t = 2, 3, 4, 5
3.	$\text{Margin}_t = 6\% \times (\text{Labour}_t + \text{Contractor Services}_t + \text{Materials}_t)$	t = 1, 2, 3, 4, 5

where:

Variable	Represents
t	the regulatory year with t = 1 being the 2026–27 year. Where t = 1 = 2026–27, t-1 = 2025–26, and t-2 = 2024–25.
\bar{p}_t	the applicable price cap for the requested service.
Labour	the labour costs directly incurred in the provision of the service which may include labour on-costs, fleet on-costs and overheads. Labour is escalated annually by CPI – X, calculated as per formula 2 above.
ΔCPI_t	the annual percentage change in the ABS CPI Quarterly All Groups, Australia ⁵⁵ from December in year t-2 to December in year t-1. For example, for 2027–28, t-2 is December 2025 and t-1 is December 2026.
X_t^i	the X factor for labour rate 'i' in year t. The value of this factor is as specified in Attachment 14 – Alternative control services.
Contractor Services	the costs associated with the use of external labour including overheads and any direct costs. The contracted services charge applies the rates under existing contractual arrangements. Direct costs incurred are passed on to the customer.
Materials	the cost of materials directly incurred in the provision of the service, material storage and logistic on-costs and overheads.
Margin	6% multiplied by the sum of labour, contractor services, and materials, calculated as per formula 3 above.
Tax	the tax payable at the company tax rate of 30% on the capital component of the expenditure (revenue less expenses) that incurs a tax liability.

⁵⁵ If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

12.6.2.1 Definition of formulae parameters

The final F&As stated that we would define the X and A factors, as well as the margin and tax for quoted services, in our draft decisions.⁵⁶ These definitions are as follows, and are unchanged from our draft decisions.⁵⁷

- X factor: This adjustment will continue to apply the real price path of our determinations. This is generally equal to 0 or the effective labour cost escalator.
- A factor: This adjustment will continue to include any bespoke adjustments that the AER may deem appropriate.
- Margin: This component will be calculated as 6% of labour, contractor services, and material costs only. We consider a flat rate (rather than the WACC) to be transparent and easy to apply, and that it allows for a return commensurate with the regulatory and commercial risks involved in providing quoted services.
- Tax: This component will be calculated as 30% (the company tax rate) on the capital component of expenditure that incurs a tax liability and aligns with the application of tax for other services provided by distributors.

Our definitions of the margin and tax component reflect the application of these components across our recent 2024–29 and 2025–30 determinations. For quoted services we apply these rates to be simple and clear for customers in engaging with these quoted services. This differs to the consideration of margin and tax components in fee-based services (see Attachment 14), where the cost build-up of these services is available in our determination and there are interactions with other components of the cost build-up, or the distributor may have proposed a top-down escalation. Customers of these fee-based services engage only with the prices we approve, allowing us to consider margin and tax components in a different way.

12.6.2.2 Addition of new price-capped alternative control services

Distributors should propose changes to their alternative control services as a part of their regulatory proposals. However, we understand there are times where a distributor cannot foresee a specific new service at the time of the regulatory determination. This is especially relevant in public lighting where new technologies are emerging, including more advanced light-emitting diode (LED) lamps and the integration of smart devices in public lighting infrastructure, or where current offerings become obsolete.

During the 2026–31 period, we will allow distributors to propose new services that are the same or similar to existing services. New services of this nature should only be introduced because customers want them (customer driven) or need them (replacing other services that are no longer available). Our assessment of new services will include consideration of the consultation with customers and the extent customers have transparency over the costs of the service as well as the likely benefits to customers from the service.

⁵⁶ AER, *Final Framework and Approach, Victorian electricity distribution determinations 2026–31*, July 2024, p. 15.

⁵⁷ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 16.

Where new services are proposed to be introduced, they must clearly fall within one of the established service groupings in the applicable service classifications. The proposed price should be demonstrated that it is in line with the cost build-up for an existing service similar to that proposed, as considered and approved in our determination process. For example, the price for a new type of public lighting would be based on a relevant public lighting service. Services that do not fit the current service classifications, or are not similar to any currently provided service, cannot be introduced in this way.

Prices for new services will be formalised as a part of the annual pricing process. However, distributors should engage with us as early as possible on any proposed new service. Prior to submitting their annual pricing proposal, and no later than the submission of a preliminary pricing proposal under our pre-lodgement engagement process (see Appendix C), the distributors must submit to the AER:

- a detailed description of the service, including how it is the same or similar to existing services, along with how the new service will be charged
- the proposed price setting out how each cost component is consistent with the price cap formulae for quoted services above
- demonstration of customer engagement and support.

The AER will consider the proposal for inclusion in the relevant annual pricing proposal. This is consistent with our F&As, and regulatory determinations across all NEM jurisdictions.⁵⁸ For the avoidance of doubt, this only relates to price-capped alternative control services and does not preclude the introduction of new services as quoted services, of which the AER does not need to approve individual services or prices.

This approach is unchanged from our draft decisions.⁵⁹

12.6.3 Transparency of quoted services

Our final decisions include requirements around transparency of billing for quoted services. Prior to the customer agreeing to receive the services:

- Distributors must provide itemised invoices to the customer or the service recipient. The itemised invoices must show all cost components. At a minimum, invoices must contain information on the cost components to demonstrate compliance with the control mechanism formula for quoted services.
- The charges must be consistent with good industry practice in terms of the resource requirements.

This approach is unchanged from our draft decisions.⁶⁰

⁵⁸ See for example, AER, *Final Decision Attachment 14 - Control mechanisms - NSW, ACT, NT and Tas - 2024–29 Distribution revenue proposal*, April 2024, p. 13.

⁵⁹ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 16–17.

⁶⁰ AER, *Attachment 14 – Control mechanisms – Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United Energy distribution determinations 2026–31*, September 2025, p. 17.

A Side constraint mechanism

The side constraint formulae to apply to standard control services and metering services for the 2026–31 period are set out in Figure A-1 and Figure A-2 respectively. These formulae apply when year $t = 2, 3, 4$ and 5 .

Figure A-1 Side constraint formulae for standard control services

Formula	Equation
1.	$WAPM_t^g \leq MAPM_t^g$
2.	$WAPM_t^g = \frac{SCR_t^g}{SCR_{t-1}^g}$
3.	$MAPM_t^g = (PP_t - 1) \times D_t + AA_t + Q_t + N_t^g + 1$
4.	$SCR_t^g = \sum_{i=1}^m \sum_{j=1}^n p_t^{ij} q_t^{ij}$
5.	$SCR_{t-1}^g = \sum_{i=1}^m \sum_{j=1}^n p_{t-1}^{ij} q_t^{ij}$
6.	$SCR_{t-1} = \sum_{g=1}^k SCR_{t-1}^g$
7.	$PP_t = (1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%)$
8.	$D_t = \frac{AAR_{t-1}}{SCR_{t-1}}$
9.	$AA_t = \frac{(I_t + C_t + B_t) - (I_{t-1} + C_{t-1} + B_{t-1})}{SCR_{t-1}}$
10.	$Q_t = \left(\frac{TAR_{t-1}}{SCR_{t-1}} - 1 \right)$
11.	$N_t^g = \frac{\sum_{h=1}^m \sum_{j=1}^n p_t^{hj} q_t^{hj}}{SCR_{t-1}^g}$

where there are 'k' tariff classes, each with 'm' tariffs, with each up to 'n' components, and where:

Variable	Represents
t	the relevant regulatory year. Where $t = 2027-28$, $t-1 = 2026-27$.
$WAPM_t^g$	the weighted average price movement for tariff class 'g' in year t, calculated as per formula 2 above.
$MAPM_t^g$	the maximum allowed price movement for tariff class 'g' in year t, calculated as per formula 3 above. This reflects the permissible percentage defined by the NER (calculated as per formula 7

Variable	Represents
	above), as well as other adjustments to demonstrate compliance with the side constraints provisions in s.6.18.6 of the NER (calculated as per formulae 8–11 above).
SCR_t^g	the side constraint revenue for tariff class 'g' in year t, calculated as the sum of the products of proposed prices and forecast quantities for year t, as per formula 4 above.
SCR_{t-1}^g	the side constraint revenue for tariff class 'g' in year t-1, calculated as the sum of the products of prices charged for year t-1 and forecast quantities for year t, as per formula 5 above.
SCR_{t-1}	the total side constraint revenue for year t-1, calculated as the sum of the side constraint revenues for each tariff class for year t-1, as per formula 6 above.
PP_t	the permissible percentage for year t, as defined by the NER, calculated as per formula 7 above.
D_t	the adjustment to create a common revenue base, calculated as per formula 8 above.
AA_t	the annual percentage change in the sum of all annual adjustment factors (I, B and C factors). This is calculated by dividing the total incremental revenues (the difference between the factors used in the total annual revenue formula for regulatory year t and year t-1) by the total side constraint revenues for year t-1 (SCR_{t-1}). This calculation is provided at formula 9 above.
Q_t	the adjustment made each year to account for changes in quantities from the preceding year. The Q factor calculation is provided at formula 10 above.
N_t^g	the adjustment made each year to account for new tariffs that do not have respective prices for year t-1 for tariff class 'g'. This calculation is provided at formula 11 above.
p_t^{ij}	the proposed price for component 'j' of tariff 'i' for year t.
q_t^{ij}	the forecast quantity for component 'j' of tariff 'i' for year t.
p_{t-1}^{ij}	the price charged for component 'j' of tariff 'i' for year t-1.
ΔCPI_t	the annual percentage change in the ABS CPI Quarterly All Groups, Australia ⁶¹ from December in year t-2 to December in year t-1. For example, for 2027–28, t-2 is December 2025 and t-1 is December 2026. This is as per the change in CPI used in the revenue cap formulae in Figure 12-1 above.
X_t	the X factor in year t, incorporating adjustments to the PTRM for the trailing cost of debt as used in the revenue cap formulae. If $X > 0$, then X will be set equal to zero for the purposes of the side constraint formula.
2%	the additional 2% side constraint threshold defined in cl. 6.18.6(c) of the NER.
AAR_{t-1}	the adjusted annual revenue requirement for year t-1, as used in the revenue cap formulae in Figure 12-1 above in the preceding and current years.
I_t	the sum of incentive scheme adjustments in year t, as per the revenue cap formulae in Figure 12-1 above.

⁶¹ If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

Variable	Represents
C_t	the sum of approved cost pass through amounts (positive or negative) in year t, as determined by the AER. It will also include any concessional finance adjustments and end-of-period adjustments to be made in year t, as per the revenue cap formulae in Figure 12-1 above.
B_t	the sum of annual adjustment factors for year t, as per the revenue cap formulae in Figure 12-1 above. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue.
I_{t-1}	the sum of incentive scheme adjustments in year t-1. This is as per the approved t-1 pricing proposal.
C_{t-1}	the sum of approved cost pass through amounts (positive or negative) in year t-1, as determined by the AER. This is as per the approved t-1 pricing proposal.
B_{t-1}	the sum of annual adjustment factors for year t. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue. This is as per the approved t-1 pricing proposal. For the avoidance of doubt, the B factor for t-1 should be equal to that used to calculate t-1 revenue in the previous pricing proposal and should not be updated for movements in the unders/overs accounts in the year t pricing proposal.
TAR_{t-1}	the total allowable revenue for year t-1, calculated using the revenue cap control formula in the preceding year.
p_t^{hj}	the proposed price for component 'j' of new tariff 'h' for year t.
q_t^{hj}	the forecast quantity for component 'j' of new tariff 'h' for year t.

Figure A-2 Side constraint formulae for metering services

Formula	Equation
1.	$PM_t^i \leq MAPM_t$
2.	$PM_t^i = \frac{SCR_t^i}{SCR_{t-1}^i}$
3.	$MAPM_t = (PP_t - 1) \times D_t + AA_t + Q_t + 1$
4.	$SCR_t^i = p_t^i q_t^i$
5.	$SCR_{t-1}^i = p_{t-1}^i q_t^i$
6.	$SCR_{t-1} = \sum_{i=1}^n SCR_{t-1}^i$
7.	$PP_t = (1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%)$
8.	$D_t = \frac{AAR_{t-1}}{SCR_{t-1}}$
9.	$AA_t = \frac{(C_t + B_t) - (C_{t-1} + B_{t-1})}{SCR_{t-1}}$
10.	$Q_t = \left(\frac{TARM_{t-1}}{SCR_{t-1}} - 1 \right)$

where there are 'n' tariffs, and where:

Variable	Represents
t	the relevant regulatory year. Where $t = 2027-28$, $t-1 = 2026-27$.
PM_t^i	the price movement for tariff 'i' in year t, calculated as per formula 2 above.
$MAPM_t$	the maximum allowed price movement for tariff 'i' in year t, calculated as per formula 3 above. This reflects the permissible percentage as applied for standard control services (calculated as per formula 7 above), as well as other adjustments similar to standard control services (calculated as per formulae 8–10 above).
SCR_t^i	the side constraint revenue for tariff 'i' for year t, calculated as the product of the proposed price and forecast quantities for year t, as per formula 4 above.
SCR_{t-1}^i	the side constraint revenue for tariff 'i' in year t-1, calculated as the product of the price charged for year t-1 and forecast quantities for year t, as per formula 5 above.
SCR_{t-1}	the total side constraint revenue for metering services for year t-1, calculated as the sum of the side constraint revenues for each tariff for year t-1, calculated as per formula 6 above.
PP_t	the permissible percentage for metering services for year t, calculated as per formula 7 above.
D_t	the adjustment to create a common revenue base, calculated as per formula 8 above.
AA_t	the annual percentage change in the sum of all annual adjustment factors (B and C factors). This is calculated by dividing the total incremental revenues (the difference between the factors used in the total annual revenue formula for regulatory year t and year t-1) by the total side constraint revenue revenues for year t-1 (SCR_{t-1}). This calculation is provided at formula 9 above.
Q_t	the adjustment made each year to account for changes in quantities from the preceding year. The Q factor calculation is provided at formula 10 above.
p_t^i	the proposed price for tariff 'i' for year t.
q_t^i	the forecast quantity for tariff 'i' for year t.
p_{t-1}^i	the price charged for tariff 'i' for year t-1.
ΔCPI_t	the annual percentage change in the ABS CPI Quarterly All Groups, Australia ⁶² from December in year t-2 to December in year t-1. For example, for 2027–28, t-2 is December 2025 and t-1 is December 2026. This is as per the change in CPI used in the revenue cap formulae in Figure 12-2 above.
X_t	the X factor for metering services in year t, incorporating adjustments to the metering PTRM for the trailing cost of debt as used in the revenue cap formulae. If $X > 0$, then X will be set equal to zero for the purposes of the side constraint formula.

⁶² If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

Variable	Represents
2%	the additional 2% side constraint threshold determined by the AER, in line with the 2% applied to standard control services.
AAR_{t-1}	the adjusted annual revenue requirement for metering services for year t-1, as used in the revenue cap formulae in Figure 12-2 above in the preceding and current years.
C_t	the sum of approved cost pass through amounts (positive or negative) in year t, as determined by the AER. It will also include any end-of-period adjustments to be made in year t, as per the revenue cap formulae in Figure 12-2 above.
B_t	the sum of annual adjustment factors for year t, as per the revenue cap formulae in Figure 12-2 above. It includes adjustments to balance the metering unders/overs account, relating to previous under/over-recoveries of revenue.
C_{t-1}	the sum of approved cost pass through amounts (positive or negative) in year t-1, as determined by the AER. This is as per the approved t-1 pricing proposal.
B_{t-1}	the sum of annual adjustment factors for year t. It includes adjustments to balance the metering unders/overs account, relating to previous under/over-recoveries of revenue. This is as per the approved t-1 pricing proposal. For the avoidance of doubt, the B factor for t-1 should be equal to that used to calculate t-1 revenue in the previous pricing proposal and should not be updated for movements in the metering unders/overs accounts in the year t pricing proposal.
$TARM_{t-1}$	the total allowable revenue for metering services for year t-1, calculated using the revenue cap control formula in the preceding year.

B Unders and overs mechanism

To demonstrate compliance with the distribution determination applicable during the 2026–31 period, distributors must comply with the unders and overs mechanism in their annual pricing proposals.

Separate unders and overs mechanisms must be maintained for each of the following:

- Standard control services (distribution charges)
- Designated pricing proposal charges (DPPC)^{63 64}
- Jurisdictional scheme amounts (JSA)^{65 66}
- Metering services.

The unders and overs mechanism incorporates both an unders and overs statement and an unders and overs account. The unders and overs statement provides for a given year the forecast, estimated, or actual revenues and underlying expenditures (or allowed revenues for revenue caps) and calculates the variance – referred to as over or under-recoveries. The unders and overs account carries forward under and over-recoveries from previous years, applies the time value of money, and calculates the balancing adjustment to be applied to the revenue cap to balance the account each year.

The unders and overs statement must include the following entries for the most recently completed regulatory year (t–2), the current regulatory year (t–1) and the next (or forecast) regulatory year (t). An example of an unders and overs statement is provided in Table B-1.

- Forecast/estimated/actual revenue:
 - For DPPC, this will include cross-boundary revenue, preferably as a separate line item.
 - Include any deliberate under-recoveries, which will be added to recovered revenue, as this is not able to be recovered in future years (see Section 12.5.3).
 - Discount any unpaid network charges resulting from ROLR events (see Section 12.5.4).
- Applicable revenue caps for standard control services and metering services – these revenue caps are fixed over time and are not updated in subsequent years.
- Forecast/estimated/actual expenditure for DPPC and JSA – these items should be itemised as provided for in the annual pricing proposal template.

⁶³ DPPC generally related to amounts passed through by a distributor in relation to the transmission of electricity from or to networks outside of their own. DPPC are specified in more detail in Chapter 10 of the NER.

⁶⁴ NER, cll. 6.18.2(b)(6), 6.12.1(s), 6.18.7.

⁶⁵ Jurisdictional scheme amounts are amounts passed through under a jurisdictional scheme approved by the AER or prescribed in the NER.

⁶⁶ NER, cll. 6.12.1(t), 6.18.2(b)(6A), 6.18.7A(b) and (c).

- The balancing adjustment (b factor) for each year – these adjustments are fixed over time and are not updated in subsequent years.

Table B-1 Example unders and overs statement (\$'000, nominal)

		Year t–2 (actual)	Year t–1 (estimate)	Year t (forecast)
Revenue from charges	i	100 000	103 000	92 266
Cross-boundary revenue (DPPC only)	ii			
Deliberate under-recoveries	iii	50	50	50
Unpaid network charges (ROLR)	iv	10		
Total revenue	i + ii + iii - iv = A	100 040	103 050	92 316
Total allowable revenue ^a /DPPC or JSA expenditure ^b		98 000	99 000	100 000
Total allowable revenue/Total DPPC expenditure/Total JSA expenditure	B	98 000	99 000	100 000
Total under/over recovery of revenue for regulatory year	A - B = C	2 040	4 050	-7 684
Balancing adjustment (b factor) made when year was 't' ^c	D	5 000	5 000	-7 684 ^d
Net under/over recovery of revenue for regulatory year	C - D = E	-2 960	-950	0

- Notes: (a) Total allowable revenue for a revenue cap should exclude the balancing adjustment applied for revenue under/over recovery for the regulatory year and therefore it is expected to equal the sum of the remaining annual adjustments, excluding b_t, as set out in Figure 12-1 for standard control services and Figure 12-2 for metering services.
- (b) DPPC and JSA expenditure will be itemised in their respective unders and overs statement in line with the annual pricing proposal template.
- (c) The balancing adjustment applied in the revenue cap for each relevant regulatory year. This is as approved in the relevant pricing proposal and should remain unchanged.
- (d) Approved revenue under/over recovery for regulatory year t.

The unders and overs account must include the following entries for the most recently completed regulatory year (t–2), the current regulatory year (t–1) and the next (or forecast) regulatory year (t). An example unders and overs account is provided in Table B-2.

1. Opening balances for each regulatory year (reflecting the closing balance of the previous year).
2. An interest charge for one year on the opening balance for each regulatory year.

3. The net over or under recovery calculated in the unders and overs statement for each regulatory year, and any applicable adjustment to remove over or under recovery amounts from the account.⁶⁷
4. An interest charge for 6 months on the net over or under recovery for each regulatory year.
5. The total sum of items 1–4 to derive the closing balance for each regulatory year.

Table B-2 Example unders and overs account (\$'000, nominal)

		Year t–2 (actual)	Year t–1 (estimate)	Year t (forecast)
Adjusted nominal WACC (per cent)	F	5.00%	5.50%	6.00%
Opening balance	G	1 000	3 140 ^a	7 463
Interest on opening balance	$F \times G = H$	50	173	448
Under/over recovery of revenue for regulatory year	C (from statement)	2 040	4 050	-7 684
Adjustment	I	0	0	0
Interest on under/over recovery for regulatory year	$(C - I) \times F^{0.5} = J$	50	100	-227
Closing balance	$G + H + C + I + J = K$	3 140	7 463	0^b

Notes: (a) Opening balance is the previous year's closing balance, being the value K from the final row of the preceding column. For the first year in the unders and overs account, the opening balance is taken from the most recently approved pricing proposal. In the above example, the \$3 140 opening balance for year t-1 is taken from the closing balance for year t-2. The \$1 000 opening balance for year t-2 is taken from the closing balance of year t-2 from the most recently approved pricing proposal, which would be year t-3 if presented in the latest version of the account.

(b) Distributors are expected to achieve a closing balance as close to zero as practicable (and less than or equal to 0) in their unders and overs accounts in each forecast year (t) in their annual pricing proposals.

Interest charges are to be calculated using the relevant adjusted nominal WACC. The adjusted nominal WACC applied for each year will be the real vanilla WACC approved by the AER in the relevant annual update, escalated for actual inflation for the relevant year.⁶⁸ This is as applied in the revenue cap formulae set out in Figure 12-1.

⁶⁷ These adjustments include, but are not limited to, bespoke smoothing arrangements set in our determination in response to significant unforeseen events, jurisdictional schemes that treat over or under recoveries within the scheme, removal of residual true-ups after jurisdictional schemes have ceased.

⁶⁸ If circumstances require, alternative adjustments for an appropriate cost of capital may be applied following consultation between the AER and relevant distributor(s).

Distributors' annual pricing proposals must provide details of calculations in the format set out in Table B-1 and Table B-2. In general:

- Amounts provided for the most recently completed regulatory year (t–2) must be audited.⁶⁹
- Amounts provided for the current regulatory year (t–1) will be regarded as an estimate.
 - Generally, these estimates would reflect the approved prices for year t-1 multiplied by the estimated quantities for year t-1.
 - If not, supporting information should be provided as to how those estimates are calculated and why they should be considered the best estimate of expected revenue for the year.
- Amounts for the next regulatory year (t) will be regarded as a forecast.
 - Generally, these estimates would reflect the prices for year t multiplied by the forecast quantities for year t.
 - If not, supporting information should be provided as to how those forecasts are calculated and why they should be considered reasonable.

In exceptional circumstances, the unders and overs accounts can accommodate additional years, such as year t–3.⁷⁰

To ensure compliance with the NER and the revenue cap form of control, a closing balance as close to zero as practicable, and below zero, is expected to be achieved in each forecast year t for each unders and overs account.

B.1 Jurisdictional scheme amounts

Jurisdictional scheme amounts consist of jurisdictional regulatory arrangements which can be temporary in nature. As a result, there can be times where no jurisdictional schemes apply and annual true-ups of the recovered revenues may continue in perpetuity in smaller and smaller amounts.

We consider it appropriate that if in a particular year, there is no forecast jurisdictional scheme amounts for that year, or for future years, that any residual amounts in that year will be moved out of the unders and overs account. These amounts will be applied as an adjustment in the distribution revenue control mechanism and allow the jurisdictional scheme unders and overs account to balance to 0. For the avoidance of doubt, this adjustment will occur in the year following the cessation of a jurisdictional scheme, being the first year that the forecast jurisdictional scheme amounts are \$0, and where there are no continuing jurisdictional scheme amounts forecast for future years.

If at any point jurisdictional schemes are subsidised, subsidy amounts will be considered to be revenues for the purpose of the unders and overs mechanism. These amounts will still

⁶⁹ A reasonable assurance report sufficiently meets these auditing requirements. Where amounts provided match other audited submissions to the AER, further assurance is not required (e.g. RINs) and should be referenced.

⁷⁰ Subject to AER approval. Any amounts provided for additional years prior to t-2 must be audited.

need to be 'trued-up', to ensure the distributor does not recover more or less than they otherwise should.

C Annual pricing proposals

In line with our approach established through the 2022 annual pricing process review,⁷¹ the AER will provide pre-filled standardised pricing proposal models for distributors to use in submitting their annual pricing proposals.

By each January of the 2026–31 period, we will provide distributors with these pre-filled pricing proposal models to be used when submitting pricing proposals. These pre-filled models will include annual adjustments, revenue (for distribution, metering, DPPC, and JSA) and expenditure (for DPPC and JSA) true-up amounts from regulatory information notices or other sources, CPI and annual return on debt updates, and other components known by the AER. Pre-filling this data allows for the AER to verify inputs prior to the short timelines allowed within the pricing approval process.

We will also use these models during our pre-lodgement engagement process with distributors during February and March. This process is used to confirm pre-filled inputs and engage on other inputs known to the distributor at this time, such as consumption forecasts. This process will also allow us to confirm the correct application of the price cap mechanisms for alternative control services in advance of the pricing proposal submissions, and engage with any proposed new alternative control services (see Section 12.6.2.2) or proposed cost pass throughs for metering services (see Section 12.6.1.2).

These processes will lead to annual pricing proposals that are more likely to be capable of approval without revision and are therefore able to be approved in a timely manner.

In their pricing proposals, distributors should also:

- provide a completed 'Statement of Compliance' using the AER's template⁷²
- provide a confidentiality template
- provide public versions of any confidential models or documents for publication
- use version numbers in filenames for easy identification of revision by stakeholders (in the format of v1, v2, v3, etc.) and
- provide details on methodologies and any supporting information for any forecasts provided (e.g., consumption forecasts).

The AER will set expectations prior to each process, which may outline further factors for the distributors to consider when submitting pricing proposals.

⁷¹ AER, *Annual pricing process review – Final position paper*, December 2022.

⁷² <https://www.aer.gov.au/documents/aer-annual-pricing-process-review-statement-compliance-march-2024>

D Rounding

The following sets out our final decisions on how distributors should use calculation inputs (i.e. whether on a rounded or unrounded basis) in their annual pricing proposals to demonstrate compliance.

D.1 Unrounded inputs to be used in calculations

'Unrounded', for this purpose, will be taken to mean at least 15-digit floating point precision (the level of accuracy at which numbers will be stored in Microsoft Excel workbooks of .XLS, .XLSX, .XLSM or .XLSB). This definition accepts that numbers with fewer than fifteen floating digits may not require 15 digits to express (such as 2.25 being equivalent to 2.250000000000000) but will meet the definition of 15-digit floating point precision.

Unrounded values should be maintained throughout calculations. Where a calculation produces an output which is to be used as an input in another calculation, rounding should not occur. Rounding should be applied to final outputs only, unless otherwise specified.

Unrounded inputs should be taken from approved Excel models where appropriate. X-factors should be unrounded inputs taken from the approved model. Where appropriate, inputs should be calculated as an alternative to using a rounded value.

For example, inflation should be calculated based around the CPI tables as provided by the ABS, or the AER's nominated best available substitute should this index cease to be calculated or is substantially changed. The result of this calculation should be taken as is, not rounded before use. Table D-1 sets out the required level of precision for an inflation calculation.

Table D-1 Demonstration of inflation calculation

	Required precision
The ABS CPI Quarterly All Groups, Australia for the December quarter in regulatory year t-2 (example)	112.1
The ABS CPI Quarterly All Groups, Australia for the December quarter in regulatory year t-1 (example)	114.6
ΔCPI_t	2.23015165031222%

Unrounded inputs include all those not specified below as suitable to be rounded in a given situation.

D.2 Instances where rounding is acceptable

In general, rounding in calculations must be done on a 'nearest' basis. Rounding to two decimal places means rounding to the nearest two decimal places, not rounding up automatically or down automatically. This accepts the convention that if a number falls precisely between two points, it can be rounded up (e.g. 2.245 can be rounded to 2.25 rather than 2.24). An exception to this for prices charged by the distributor is noted below, as these must be less than or equal to the price cap.

Prices under a price cap or a revenue cap should be input as billed. That is, if billing systems calculate charges based on a value rounded to 4 decimal places, then the input into the pricing proposal for actual or proposed prices should also be rounded to 4 decimal places to reflect the actual prices charged.

D.3 Price cap control mechanism formulae

When applying a price cap, the value should be rounded to the nearest two decimal places each year. When calculating the value of the price cap for the following period, the rounded value of the previous year's price cap must be used to determine the value of the new price cap to ensure consistency in the price cap from year-to-year.

Table D-2 Demonstration of price cap calculation

	Required precision
\bar{p}_{t-1}^i	\$23.28
X factor (example: should be taken from model)	-7.12546236955321%
ΔCPI_t	2.23015165031222%
\bar{p}_t^i (unrounded)	\$25.4938708296164
\bar{p}_t^i (rounded)	\$25.49

Prices charged by the distributor can be rounded to as few or as many decimal places as required, subject to being less than or equal to the two decimal place value of the price cap. In Table D-2, this would mean a proposed price of \$25.49 would be acceptable as it is equal to the \$25.49 price cap, as would a proposed price of \$25.4899 as it is below the price cap. However, a price of \$25.493 would not be compliant as it is a higher value than the rounded price cap of \$25.49, even though it is the unrounded value that the price cap is calculated from as per Table D-2.

For the avoidance of ambiguity, where a price is expressible as a rate for a period of time, rounding of the price cap, and the demonstration of compliance, will apply to the largest relevant time period. For example, the price of an hourly service will be capped on an hourly basis. However, a service which can be priced either on a daily rate or an annual rate will have rounding apply to the cap on the annual rate. The daily rate should then represent the annual rate divided by 365, or 366 if the regulatory year to which the price applies is a leap year. This resulting daily rate may be expressed on a rounded basis (with discretion on the appropriate level of decimal places to apply) but must be based on a rounding to the nearest decimal place.

Shortened forms

Term	Definition
AAR	Adjusted annual smoothed revenue requirement
ABS	Australian Bureau of Statistics
AusNet	AusNet Services
CPI	Consumer price index
CSIS	Customer service incentive scheme
DMIAM	Demand management innovation allowance mechanism
DMIS	Demand management incentive scheme
DUoS	Distribution use of services
ESIS	Export service incentive scheme
F&A	Framework and approach
LED	Light-emitting diode
NER	National Electricity Rules
PTRM	Post-tax revenue model
ROLR	Retailer of last resort
STPIS	Service target performance incentive scheme
WACC	Weighted average cost of capital
