

Attachment B:

Control mechanism

Framework and approach for the 2029-34 period

Wired for good.™

Ausgrid

Contents

The alternatives under consideration 3

Reasons to retain the revenue cap 3

1.1 The AER's concern requires a targeted response 5

1.2 Risk of unintended consequences 5

1.3 Efficient pricing does not require a WAPC 6

1.4 A WAPC can weaken the incentives for the flexibility the transition requires 7

1.5 Stable average prices do not mean stable bills 9

1.6 If data centres are the concern, service classification offers more targeted customer protection 10

1.7 Who should bear volume risk? 10

2.1 The Victorian formulae as the default for 2029-34 12

2.2 Growth in existing tariff classes 12

2.3 Prescribed (transmission) services 13

2.4 Revenue adjustments from trial rules and waivers 14

2.5 Enabling an expansion of the Community Power Network concept 14

2.6 Metering services 14

2.7 Transparency of quoted services 15

Appendix A: Our proposed control mechanism for standard control services 16

1 Introduction

Ausgrid proposes that the 2029-34 Framework and Approach (**F&A**) retain the revenue cap for standard control services. When the Australian Energy Regulator (**AER**) last assessed our control mechanism in depth, it found that a revenue cap gives a higher likelihood that efficient costs are recovered.[1] Ausgrid considers that this finding carries even greater weight during the energy transition, when networks are expected to finance substantial new investment.

The form of control established through the F&A generally binds the subsequent determination, with limited scope for departure under the National Electricity Rules (**NER**).[2] The decision is therefore highly consequential, and must be made before the expenditure and demand forecasts informing the final determination are settled. Any change should rest on strong evidence of a clearly identified problem with the revenue cap. It should also show that changing the control mechanism is the best way to address that problem, compared with more targeted tools such as tariff design or service classification, and that the benefits outweigh any unintended consequences.

The alternatives under consideration

Potential alternatives to a revenue cap include a:

1. weighted average price cap (**WAPC**)
2. hybrid combining a WAPC with revenue adjustments outside a specified deadband.

A hybrid provides some protection against larger revenue deviations but retains the essential characteristics of a price cap. Within the deadband, revenue remains linked to actual volumes, with no reconciliation to the allowed revenue requirement. The Jemena Gas Networks model, for example, applies an unadjusted price cap where actual volumes remain within 5 per cent of forecasts and provides only partial revenue adjustments outside that boundary.[3]

We recognise that other forms of control are available. This attachment focuses on the two above because the AER has experience with both, having applied a WAPC previously and currently applying the hybrid to the gas networks it regulates. If the AER is considering other options, we encourage it to consult on them early so that stakeholders have time to test them before its final decision in July 2027.



A hybrid is, in substance, a WAPC

A hybrid of the kind approved for Jemena Gas Networks and Evoenergy raises the same concerns as a WAPC about revenue recovery, pricing incentives, demand management and investment risk. This attachment therefore treats the two as equivalent.

Any reference in this attachment to a WAPC or price cap includes a hybrid of this kind.

Reasons to retain the revenue cap

Our position rests on seven considerations, set out in sections 2.1 to 2.7.

1. **Demand uncertainty calls for targeted safeguards.** Independent forecast scrutiny, expenditure assessment and published lower-demand bill scenarios can address the risk that forecast growth understates the customer impact of a large capital program, as the AER's recent Jemena decision illustrates.[4]

---

1 AER, Preliminary F&A paper: NSW 2014-19 Distribution Determinations, June 2012, p. 46.

2 NER, cl. 6.12.3(c).

3 AER, Jemena Gas Networks access arrangement 2025–30, Final Decision, May 2025, pp. 12-13 and 41.

4 AER, Jemena distribution determination 2026-31, Final Decision, Overview, April 2026, p. 6.

2. **A WAPC can produce unintended revenue outcomes.** Without volume reconciliation, actual revenue can diverge materially from the efficient allowance, with greater consequences for customers and networks as demand uncertainty grows.[5]
3. **Negotiated services can isolate data centre risks.** Ausgrid proposes keeping eligible data centre investment outside the regulatory asset base (**RAB**), with costs and demand and credit risks allocated to the contracting parties. This responds to the AER's concern about applying common control arrangements to large site-specific loads and small customers.[6]
4. **Efficient pricing does not depend on a WAPC.** The AER found that the expected pricing incentives had not operated effectively in practice. Since 2014, the NER pricing principles and the AER's assessment of tariff structure statements have directly supported cost-reflective tariff design.[7]
5. **Volume-linked revenue can disincentivise flexibility.** Demand management and tariff reform can lower energy volumes, and so revenue, even where they reduce system costs. The AER recognised this disincentive when moving to a revenue cap over a decade ago.[8]
6. **Stable average prices do not ensure stable customer bills.** The AER found that a WAPC had not necessarily delivered stability for individual tariffs or customers.[9]
7. **Incentives should reflect what networks can influence.** Networks can improve capacity utilisation but have limited control over aggregate demand across five years. Ausgrid considers that a targeted, capped utilisation incentive would better connect rewards to network performance than broad exposure to volume risk.



Key drawbacks identified in a revenue cap have since been addressed

When the AER last reviewed the control mechanism in depth, it concluded that 'the benefits from a higher likelihood of recovery of efficient costs under a revenue cap ***outweigh the detriments of within period price instability and weak efficient pricing incentives***' (emphasis added).[10]

Both detriments have since been substantially addressed. The AEMC's 2014 distribution pricing reforms now drive efficient tariff design directly (section 2.3), and side constraints and smoothing arrangements can manage price movements within the period (section 2.5). We believe the case for a revenue cap has therefore only strengthened since the AER first adopted it.

---

5 AER, Preliminary F&A paper: NSW 2014-19 Distribution Determinations, June 2012, pp. 46 and 55.

6 AER, Victorian Final Decision, Attachment 12, April 2026, p. 13.

7 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations, March 2013, pp. 49 and 100; AER, Jemena Final Decision, Overview, April 2026, pp. 31-32.

8 AER, Stage 2 F&A paper: NSW 2014-29 Distribution Determinations, January 2014, p. 34.

9 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations, March 2013, pp. 52 and 110–111.

10 AER, Preliminary F&A paper: NSW 2014-19 Distribution Determinations, June 2012, p. 46.

Key considerations

1.1 The AER's concern requires a targeted response

The form of control matters because it determines how demand and revenue risk is shared between networks and customers, with implications for revenue recovery, investment and customer outcomes. Any reconsideration of the revenue cap should therefore start with a clear understanding of the issue the AER is seeking to address and the outcomes it wants to improve. While the AER has not yet set out its reasons in writing, the clearest guide is the Victorian 2026-31 decisions, in which the AER retained the revenue cap but noted that it would consider, before and during the NSW DNSP 2029-34 F&A stage, whether a revenue cap remains appropriate for large customers on site-specific tariffs and small customers alike.[11]

We understand the concern to have two parts:

1. Demand is increasingly uncertain, particularly from large new loads such as data centres.
2. Projected bill reductions rely on that demand eventuating, as the AER acknowledged in its Victorian decisions.[12] If demand falls short, bills may be higher than projected.

Both concerns can be addressed through targeted responses, without changing the form of control for all standard control services. Independent scrutiny of energy forecasts and publication of bill impacts under lower-demand scenarios would address the bill-projection concern directly.

For data centres, section 2.6 shows how Ausgrid's proposed negotiated services model would protect other customers from that capex risk.

To support constructive engagement, we encourage the AER to set out the specific problem it is seeking to address, the factors under clause 6.2.5(c) that support reconsideration, and the change in risk allocation it expects an alternative mechanism to produce.

1.2 Risk of unintended consequences

AUSTRALIAN ENERGY REGULATOR

Preliminary F&A paper: NSW 2014-19 Distribution Determinations

"The AER is aware of situations where substantial over recovery has taken place under the WAPC, caused by higher than forecast sales volumes and, potentially, advantageous tariff rebalancing"

(AER, June 2012, p. 46)

A WAPC constrains movements in a weighted average of prices, but actual revenue depends on the quantities delivered and their distribution across tariffs. Differences between forecast and actual quantities can therefore cause revenue to diverge from the building block revenue requirement without a corresponding change in efficient costs. The WAPC does not automatically reconcile those differences, so it creates scope for both over-recovery and under-recovery.

The AER's previous analysis illustrates the potential materiality of these outcomes. Its Stage 1 F&A found that Victorian distributors collectively recovered revenue above the adjusted forecast in every year of the 2006-10 period, totalling $541 million (real FY10) and averaging 8.32 per cent above forecast annually.[13]

---

[11] AER, Victorian electricity distribution determinations 2026-31, Attachment 12, April 2026, p. 13.

[12] AER, Final decision: Powercor electricity determination 2026-31, April 2026, pp. 12-14.

[13] AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations, March 2013, p. 106.

The 2014-29 Preliminary F&A also recorded Ausgrid's recovery of $8.3 million above the adjusted forecast in 2009-10. The AER expressed concern that persistent over-recovery, rather than gains and losses that balanced over time, could produce outcomes inconsistent with consumers' long-term interests.[14]

Ausgrid considers that this experience demonstrates the potential for unintended, and not necessarily efficient, consequences from the operation of the price cap control mechanism, arising from the interaction of forecasting uncertainty, changes in consumption and tariff structures. The relevant consideration is whether the resulting allocation of risk supports efficient pricing, efficient investment and the recovery of efficient costs over time.

In Ausgrid's view, the energy transition materially increases both the scope for these unintended outcomes and their potential consequences. Electrification, rooftop solar, storage and changing customer behaviour introduce uncertainty about the volume, timing and composition of network use. These changes can affect revenue recovery differently from network costs. A reduction in energy delivered, for example, need not reduce the investment required to meet peak demand, maintain reliability or accommodate new connections and two-way energy flows.

Customers can be adversely affected in either case. If networks recover more than their efficient costs, customers may pay more without receiving any additional benefit. If revenues fall materially or persistently short, networks may find it harder or more expensive to fund the energy transition, leading to higher long-term costs, delayed connections or reduced reliability.

A revenue cap provides a more direct link between the AER's revenue determination and actual revenue recovery. Subject to the applicable control mechanism, adjustments and incentive arrangements, the unders and overs account reconciles differences over time, including an allowance for the time value of money.[15] Although this entails adjustments to prices as quantities change, it reduces the risk of persistent revenue outcomes driven by forecast error. That stability matters because, to promote efficiency, Ausgrid must make investment decisions that minimise whole-of-life costs over horizons of up to 40 years. Short-term revenue volatility driven by forecast error is poorly matched to decisions of this duration and may raise the cost of financing them. Retaining a revenue cap would therefore protect customers from over-recovery while providing the stability and certainty needed to make, and efficiently finance, the long-lived investment the energy transition requires.

1.3 Efficient pricing does not require a WAPC

AUSTRALIAN ENERGY REGULATOR

Stage 1 F&A paper: NSW 2014-19 Distribution Determinations

"We consider it is more likely that efficient pricing will eventuate if a revenue cap is applied in combination with more prescriptive pricing principles, rather than relying on a WAPC."

(AER, March 2013, p. 49)

The main argument for a WAPC is that the flexibility to rebalance tariffs, combined with exposure to changes in demand, encourages efficient pricing. In 2013, the AER stated:[16]

> Distributors under a WAPC can retain revenue recovered above the expected revenue calculated by the AER. Theoretically, this provides distributors with an incentive to set prices efficiently. That is, distributors are able to increase profit by reducing the price on price sensitive services towards marginal cost. This incentive arises because when a distributor reduces the price of any service(s) under the WAPC it is allowed to increase

---

14 AER, Preliminary F&A paper: NSW 2014-19 Distribution Determinations, June 2012, p. 55.

15 AER, Draft Decision: Victorian DNSP determinations 2026-31 (Attachment 12), September 2025, p. 22.

16 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations, March 2013, pp. 48.

the price on another service(s). The distributor can therefore increase profit by simultaneously decreasing the price on price sensitive services and increasing the price on price insensitive services. This is because customers of price sensitive services are likely to respond to lower prices by using more of those services. The decrease in a distributor's revenue caused by it lowering prices is therefore offset by the increase in sales. Meanwhile, customers of price insensitive services are likely to respond to higher prices by using the same amount, or only slightly less, of those services.

The AER's view that a WAPC creates incentives to price efficiently, while complex, is sound in theory. In practice, however, the AER found that the assumptions underpinning this view did not sufficiently hold, and that the WAPC had not generally delivered the anticipated improvements in pricing efficiency.[17] It therefore considered efficient pricing more likely under a revenue cap combined with more prescriptive pricing principles (see quote in the breakout box above). We agree with this conclusion and consider that the case for this approach is stronger today than it was in 2013.

Since then, the pricing framework has changed materially. Rather than relying on the form of control to provide indirect incentives, policymakers have introduced direct tools to promote efficient pricing.

The most significant was the Australian Energy Market Commission's (**AEMC**) 2014 distribution network pricing reforms, which introduced an explicit cost-reflective pricing objective and strengthened the pricing principles. Under these principles, tariffs must be based on long run marginal cost, with remaining efficient costs recovered in a way that minimises distortion to efficient price signals, subject to customer impact considerations.[18]

The reforms also established tariff structure statements, developed through consultation and approved by the AER as part of each regulatory determination. Together with the annual pricing process, these arrangements provide a direct framework for assessing tariff structures and their implementation.[19] The 2021 export reforms further developed this framework to accommodate two-way network use, enabling export pricing alongside customer safeguards, consultation requirements and AER oversight.[20] These reforms mean a WAPC is no longer needed to drive efficient pricing.

In Ausgrid's view, if the AER's underlying concern is the accuracy of expenditure and demand forecasts, it should be addressed through the forecasting and expenditure tools designed for that purpose, not the form of control. A proposal to reintroduce a WAPC should demonstrate that it would improve pricing beyond what the current framework already delivers, and why those benefits would outweigh the risks it creates for revenue recovery, investment and tariff reform.

1.4 A WAPC can weaken the incentives for the flexibility the transition requires

AUSTRALIAN ENERGY REGULATOR

Stage 1 F&A paper: NSW 2014-19 Distribution Determinations

"…the AER considers a revenue cap provides an incentive to undertake demand side management, at least in the short run. On the other hand, a WAPC provides a disincentive to undertake demand side management in the short run and in the long run."

(AER, March 2013, p. 53)

---

17 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations, March 2013, pp. 48-50.

18 AEMC, Final determination: Distribution Network Pricing Arrangements, final determination, 27 November 2014; NER, cl. 6.18.5.

19 AEMC, Final determination: Distribution Network Pricing Arrangements, 27 November 2014.

20 AEMC, Access, pricing and incentive arrangements for distributed energy resources, August 2021.

In its March 2013 Stage 1 F&A for the NSW 2014-19 determinations, the AER identified a structural tension between volume-linked revenue and efficient demand management. Its Stage 2 F&A subsequently concluded that moving to a revenue cap removed the demand management disincentive associated with the WAPC. It therefore discontinued the separate arrangements that had compensated networks for revenue foregone through demand management.[21]

This issue has greater significance as networks take a more active role in coordinating consumer energy resources, storage and flexible demand. In December 2025, Energy Ministers agreed to formalise DNSPs as distribution system operators (**DSOs**), as recommended by the Consumer Energy Resources Taskforce in its final advice on redefining roles for market and power system operations. The core DSO functions identified by the Taskforce include actively managing network assets, consumer energy resources and flexible loads, and enabling flexibility by valuing, incentivising, procuring and coordinating services from those resources. Through its Electricity Network Regulation Review, the AEMC is now examining whether the incentive framework supports DNSPs to perform these functions in a way that maximises consumer outcomes. The form of control is a core part of that framework, and should not financially disadvantage networks for performing DSO functions efficiently.

The AER's 2026 regulatory agenda recognises the importance of using flexibility and market services to manage constraints and reduce system costs, including through flexible connections and coordinated operation of distributed resources.[22] These activities can change the timing, location and quantity of network use, without necessarily reducing total energy consumption.

A revenue cap substantially reduces the dependence of revenue recovery on those changes by reconciling actual recovery with allowed revenue over time. This supports assessment of flexibility and non-network solutions on their costs and benefits, while complementary expenditure and demand management incentives remain important. Under a WAPC, where charges depend on usage and no compensating mechanism applies, an initiative that reduces energy delivered or shifts demand to lower-priced periods can reduce network revenue even where it delivers an efficient outcome. The strength of that disincentive depends on tariff design, avoided costs and the wider incentive framework.[23]

Volume-linked revenue can also create tension with the objective of encouraging efficient use of spare network capacity. Where off-peak consumption is expected to grow independently of network prices, a WAPC may strengthen incentives to recover revenue from that growth within the available pricing discretion.

Tariff reform presents a related challenge, as changes in tariff structures and assignment create uncertainty about customer responses and the distribution of energy volumes across tariffs. That uncertainty is likely to grow. The AEMC's pricing review final report recommended further network tariff reforms, to be introduced gradually in stages over approximately ten years following a rule change process. Depending on timing, these reforms could take effect during the 2029-34 period. Moving away from a revenue cap at the same time would add substantial further uncertainty for customers, retailers and Ausgrid. A revenue cap reconciles the resulting revenue differences over time. A WAPC would expose the network more directly to that uncertainty, potentially weakening incentives to progress beneficial reforms. For 2029-34, the form of control should support efficient flexibility and tariff reform. Moving back to a WAPC would reintroduce this disincentive and may require new schemes to offset it, which should happen only with clear evidence of customer benefit.

---

21 AER, Stage 2 F&A: NSW 2014-19 Distribution Determinations, January 2014, p. 34.

22 AER, ENA Regulation Seminar 2026: Keynote regulator's address, August 2026.

23 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations, March 2013, pp. 53-54.

1.5 Stable average prices do not mean stable bills



Stage 1 F&A paper: NSW 2014-19 Distribution Determinations

"*However, a WAPC does not necessarily, and has not in practice, increased price stability or predictability for individual tariffs or customers*."

(AER, March 2013, p. 52)

A WAPC can provide greater stability in average prices within a regulatory period because it does not require adjustments to reconcile revenue when actual volumes differ from forecasts. However, stability in the weighted average does not ensure stability in the tariffs customers face. The AER recognised this distinction in 2013, documenting substantial movements in components of highest-revenue residential and business tariffs despite compliance with the overall price cap.[24] For customers managing bills and retailers managing network cost exposure, the predictability of the tariffs applying to them is central, and an aggregate price constraint cannot by itself provide it.

A revenue cap does expose prices to adjustments arising from differences between forecast and actual volumes. The AER expressly acknowledged this in 2013, while identifying tolerance limits and the design of the unders and overs account as ways to limit adjustments in any one year.[25] The current control mechanism arrangements applicable to NSW also recognise scope for bespoke smoothing arrangements in response to significant unforeseen events.[26]

Side constraints under clause 6.18.6 of the NER provide an additional protection by limiting annual movements at the tariff-class level, subject to the adjustments required by the Rules. They do not cap every individual tariff or customer bill, and are not exclusive to a revenue cap. Their effectiveness depends on their design and interaction with other pricing arrangements. The AER's 2026 Victorian decisions show that these arrangements can be refined to address emerging issues. Revenue from large new customers on site-specific tariffs had caused the previous side constraint to require price reductions for those customers and price increases for other tariff classes, including small customers. The AER responded by introducing an "N factor", which disregards the effect of new tariffs when testing compliance with the side constraint. This change, supported by stakeholders, prevents small customers from cross-subsidising large ones without changing the form of control.[27]

For 2029-34, the promotion of cost-reflective tariffs, export pricing and the connection of large loads such as data centres will make the distribution of price changes across customers particularly important. Ausgrid considers that concerns about large revenue adjustments should first be addressed through targeted improvements to account design, smoothing and tariff transition arrangements, consistent with the NER and timely recovery of allowed revenue. Greater stability in a weighted average, without more predictable and efficient pricing outcomes for customers, does not establish a sufficient case for replacing the revenue cap.

---

24 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations,, March 2013, pp. 52 and 110–111.

25 AER, Stage 1 F&A paper: NSW 2014-19 Distribution Determinations,, March 2013, pp. 52 and 57.

26 AER, Final decision, Control mechanisms, NSW, ACT, NT and Tasmania 2024-29 (Attachment 14), April 2024, p. 18, footnote 31.

27 AER, Victorian distribution determinations 2026–31, Final decision, Attachment 12, April 2026, pp. 8-13.

1.6 If data centres are the concern, service classification offers more targeted customer protection



Final Decision: Jemena distribution determination 2026-31 (Overview)

"Our decision helps to ensure large customers like data centres are paying their own way when connecting to the distribution network."

(AER, April 2026, p. viii)

We recognise the AER may be concerned where large network investment to serve data centres relies on revenue from their forecast demand to offset the impact on other customers' network charges, a benefit that arises only if that demand eventuates. The AER's analysis of Jemena's forecast bill reductions shows the risk. If consumption is lower than forecast, the expected savings fall, but Jemena can still recover its allowed revenue under the revenue cap.[28]

Ausgrid's proposed negotiated services model would address this risk by keeping investment for negotiated data centre services out of the RAB (see Attachment A, chapter 5). The data centre customer would pay those costs directly under a negotiated agreement, so the investment is matched by agreed funding and payment commitments. Other customers would not fund that investment, or cover any shortfall if the data centre is delayed, uses less electricity than expected or closes earlier than forecast.

The contracting parties would manage the credit risk through arrangements such as upfront contributions, minimum payment commitments and financial security. Data centres would also pay their share of shared network costs, consistent with the AER's stated approach.[29]

Ausgrid's proposed negotiated services model is therefore a more direct and targeted response to this concern, allowing timely investment in data centre connections while protecting other customers from the associated investment and default risks. Changing the form of control instead would be a blunt response that risks significant unintended consequences for all customers (see section 2.2).

1.7 Who should bear volume risk?



AER Discussion Paper on ACT/NSW control mechanisms for SCS

"Who should bear the risk of errors in forecast volumes, DNSPs or customers?"

(AER, April 2012, p 11)

Transferring volume risk to networks does not, in itself, reduce uncertainty about future demand. It changes who bears the financial consequences when actual demand differs from forecasts. The case for doing so must therefore rest on whether the transfer would improve outcomes for customers.

---

[28] AER, Final Decision: Jemena distribution determination 2026-31 (Overview), April 2026, p. 6.

[29] AER, Final Decision: Jemena distribution determination 2026-31 (Overview), April 2026, p. viii.

We propose three criteria: the ability to manage the risk, the incentives the transfer would create, and whether the financial exposure would be proportionate to the network's influence and the value it can deliver for customers. We consider each below.

1. The ability to manage the risk

Networks have an important role in enabling efficient use of the electricity system. Timely connections, efficient tariff design, demand flexibility, support for electrification, more hosting capacity, less avoidable curtailment and more flexible connection arrangements can improve network performance and customer outcomes. These actions can accommodate more demand and generation through existing assets, particularly at times and locations where capacity is available, while avoiding or deferring investment. Networks should face incentives to pursue these benefits.

Many of the principal drivers of distribution volumes nevertheless lie outside a network's control. These include weather and economic conditions, government policy and subsidy settings, customer adoption of consumer energy resources and electric vehicles, and proponents' decisions about whether and when to proceed with large new connections. A network may take effective action to improve utilisation while overall volumes fall. Equally, volumes may rise without any improvement in network performance.

2. The incentives that would be created

A WAPC links network revenue to delivered volumes without distinguishing between changes attributable to network performance and those arising from external developments or forecast error. Higher throughput does not necessarily mean more efficient network use. The benefit to customers depends on when and where demand occurs, the capacity available and the cost of serving it.

Additional demand can increase network revenue even where it requires costly augmentation. Conversely, measures that reduce delivered volumes can reduce revenue even where they avoid investment and lower costs for customers. A WAPC therefore provides no consistent link between financial reward and customer benefit.

The AER should also consider the other behaviours a change in control mechanism would encourage. As sections 2.2 and 2.4 explain, a WAPC can encourage tariff rebalancing towards growing components and weaken incentives to pursue demand management, flexibility and tariff reforms that reduce or shift delivered volumes. These responses may protect or increase network revenue without improving outcomes for customers.

A revenue cap can accommodate targeted incentives to improve utilisation while maintaining revenue adequacy and supporting efficient pricing and investment, without requiring aggregate forecast error to become a principal determinant of network returns.

3. Proportionality

The financial exposure should reflect both the network's ability to influence the outcome and the value of that influence to customers. It should be large enough to affect decisions, with limits that recognise the network's degree of control and the uncertainty in attributing outcomes to its actions.

A WAPC is poorly suited to this task because, as noted above, revenue would also depend on broader demand movements over the regulatory period, with gains or losses that could bear little relationship to either network performance or customer benefit.

Where stronger incentives for efficient network use are warranted, a targeted, capped mechanism provides a more proportionate approach. It can reward improvements and penalise underperformance against clear baselines. Ausgrid considers there may be a case for a utilisation incentive on this basis, as outlined in its recent submission to AEMC's Network Regulation Review.

2 Control mechanism formulae

Sections 1 and 2 of this attachment set out our reasons for retaining a revenue cap for standard control services in the 2029-34 period. This section addresses the formulae that give effect to that control mechanism for standard control services. The formulae require separate attention because, once the F&A sets them, the AER may depart from them in the distribution determination only where it considers there has been a material change in circumstances.[30]

2.1 The Victorian formulae as the default for 2029-34

We broadly support adopting the control mechanism formulae in the AER's April 2026 final decision for the Victorian distributors as the default formulae for standard control services in the 2029-34 period. This includes the revenue cap formulae and the side constraint formulae, including the "N factor".[31] These formulae are the AER's most recent statement of the control mechanism under a revenue cap. We propose one addition to the revenue cap formulae: the Proven Trial factor for Community Power Networks (section 3.5 and Appendix A).

The AER introduced the N factor after it identified, in the 2026-27 annual pricing proposals of non-Victorian distributors, that customers on new site-specific tariffs were causing compliance issues with the side constraint mechanism. Compliance would have required price reductions for those large customers and price increases for other tariff classes, including small customers.[32] The N factor addresses this by including an allowance in the maximum allowed price movement for each tariff class to account for revenue recovered from new tariffs.[33]

The AER supported the N factor on the basis 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'.[34]

We agree with the AER's position. The N factor puts further protections in place for smaller customers while preserving the benefits that large new loads bring when they connect to the network. It promotes efficiency, because large customers continue to pay the efficient cost of serving them. It also promotes equity and distributional fairness, because the benefits of higher volumes are shared across all customers rather than shifting costs to smaller customers. The N factor shows that the pricing effects of large new loads can be addressed through targeted improvements to the revenue cap, rather than a change to the form of control.

2.2 Growth in existing tariff classes

In its 2026-31 Victorian final decision, the AER noted that customers on existing tariffs with significantly increasing electricity usage 'could cause issues of compliance with the applicable side constraint mechanism'.[35] It found this was mostly related to large customers with large and growing loads 'and therefore significantly increasing revenue recovery from those customers'.[36]

The AER went on to say:[37]

> 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:

---

30 NER, cl. 6.12.3(c1); AER, NSW, ACT, NT and Tasmania Final Decision, Attachment 14, Control mechanisms, April 2024, p. 1.

31 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, Figure 12-1 (pp. 4-6); Figure A-1 (Appendix A, pp. 24-26).

32 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 11.

33 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, pp. 11-12; formulae 3 and 11 in Figure A-1, (Appendix A, p. 24).

34 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 12.

35 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 12.

36 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 12.

37 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 12.

- 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.

Broadly, this is an equity matter that arises when large customers significantly increase their electricity usage. The current control mechanism includes a Q factor that adjusts for changes in energy volumes, but it only partly addresses this problem. Because it is calculated on total revenue rather than for each tariff class, it cannot account for one tariff class growing much faster than the network as a whole.[38]

The question is how the benefit of higher volumes from large customers should be shared between those customers and all other customers.[39] There are three main options:

1. Large loads keep the benefit. Prices for the growing tariff class would fall as its volumes rise. However, these customers are already priced at the efficient cost of serving them, and that cost is unlikely to fall as their usage increases.[40] This option could therefore see large customers pay less than the efficient cost to serve them, which the AER has sought to avoid.[41] It would also likely require the Q factor to be measured at the tariff class level, which the AER considers could produce worse outcomes than the current mechanism and would need additional data.[42]
2. Other customers receive the benefit. Prices for large loads would continue to reflect the efficient cost of serving them, and the additional revenue they contribute would lower prices for all other customers. This is how the revenue cap already operates, so no change to the formulae would be needed, provided a breach of the side constraint driven only by volume growth is not treated as a price shock.
3. The benefit is shared between large loads and other customers. Part of the benefit would flow to the growing tariff class and the rest to other customers. This is a middle path, but it would need a rule for how the benefit is split. That adds complexity and judgement to each annual pricing proposal, and the split would be open to dispute.

At this stage, we favour the second option. It is consistent with how Individually Calculated Tariffs are set, and it is fair to existing customers, who funded the shared network and carry some residual risk if forecast loads do not connect. It also requires no change to the control mechanism formulae. However, we have not reached a final view. We intend to discuss the issue further with our Customer Consultative Committee (**CCC**) and large load customers, and to undertake quantitative analysis that we will share with the AER. We welcome further engagement with the AER and other stakeholders on this matter over the coming months.

2.3 Prescribed (transmission) services

We support carrying forward the revenue cap for prescribed (transmission) services provided by our dual function assets, using the formulae the AER applied for 2024-29.[43] We recommend that the F&A for 2029-34 set out these formulae so that they are settled at the F&A stage and carried into the draft and final determinations.

---

38 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 12.
39 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 13.
40 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 13.
41 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 12.
42 AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, pp. 12-13.
43 AER, NSW, ACT, NT and Tasmania Final Decision, Attachment 14, Control mechanisms, April 2024, Figure 14-4, p. 8.

2.4 Revenue adjustments from trial rules and waivers

We recommend that the control mechanism formulae accommodate revenue adjustments arising from any trial rule or waiver that applies to Ausgrid during the 2029-34 period. Because the AER may depart from the F&A formulae only where it considers there has been a material change in circumstances, an adjustment that the formulae do not provide for could depend on that test being met.[44]

A trial approved during the period is an expected feature of the regulatory framework, and its revenue effects should not depend on whether it satisfies that test. The current formulae already include a catch-all A factor within the B factor for bespoke adjustments the AER deems necessary, including true-ups not provided for elsewhere.[45] We recommend that the F&A confirm that the A factor, or an equivalent term, extends to revenue adjustments that a trial rule or waiver requires, so that these adjustments can be given effect through the annual pricing process.

2.5 Enabling an expansion of the Community Power Network concept

Attachment A sets out our proposal for Community Power Networks and how the related activities should be classified. We propose that two activities be classified as standard control services (common distribution services) for the 2029-34 period. The first is a pilot phase, covering the activities needed to manage a Local Energy Precinct in the Mascot-Botany and Charmhaven pilot areas, so the pilot can run to completion. The second is delivering a business-as-usual version of the Community Power Network concept in new locations, once the pilot has met agreed success metrics. Neither activity is classified in the 2024-29 period.

We do not yet know whether the Community Power Network pilot will deliver the customer and network benefits we expect. Our regulatory proposal will therefore put forward Community Power Network expansion capex for the later years of the 2029-34 period, separate from the ex ante capex forecast. That expenditure would be recovered only if the conditions specified in the control mechanism are met, including that the pilot shows clear net benefits for customers.

The control mechanism will need to support this conditional pathway. We recommend that expansion assets be fully funded through the RAB, and that the control mechanism include a benefit sharing mechanism that returns wholesale market and other revenues earned from the assets to customers. Once these benefits are factored in, the net cost to customers would be less than full RAB funding, and Ausgrid's earnings on these assets would be limited to a regulated return. We also recommend that the formulae include a Proven Trial factor, which would allow this expenditure to be recovered only once defined conditions are met. We expect these conditions would include the pilot meeting agreed success metrics, evidence of sustained net benefits for customers and AER review of the proposed expansion.

If the conditions are not met, the Proven Trial factor would not be triggered and customers would not fund an expansion. This gives customers and the AER confidence that the model will only scale where it has been shown to work, while ensuring there is a smooth transition to business-as-usual arrangements should the pilot succeed. Applications would follow the timetable the AER set for metering cost pass throughs in its April 2026 Victorian decisions: lodged by 31 October, with the Proven Trial factor taking effect from the following 1 July through the annual pricing process. Because the benefit sharing amount uses revenue from two years earlier, it would continue into 2034-39, so that revenue the expansion assets earn in the last two years of the period is returned to customers in the first two years of the next.

Appendix A, Table A-2 defines the Proven Trial factor (PTt). Attachment D explains how it would work in practice, including the annual process (section 2.2), the success metrics (section 2.4), funding and true-ups (chapter 3) and the CESS (section 3.4).

2.6 Metering services

From the 2029-34 period, we propose that metering services be recovered within a single revenue cap for standard control services rather than through a parallel metering revenue cap. We recognise that the AER applied parallel revenue caps to Endeavour Energy and Essential Energy for 2024-29 to provide transparency on metering costs, adjustments and true-ups, and that it did not accept Endeavour Energy's proposal for a legacy metering adjustment factor within the non-metering revenue account.[46] We consider

---

[44] NER, cl. 6.12.3(c1).

[45] AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, Figure 12-1, p. 5; AER, NSW, ACT, NT and Tasmania Final Decision, Attachment 14, Control mechanisms, April 2024, Figure 14-1, p. 5.

[46] AER, NSW, ACT, NT and Tasmania Final Decision, Attachment 14, Control mechanisms, April 2024, pp. 5-6.

that the transparency the AER sought can be provided through reporting within a single cap, with less complexity in calculation and billing. We invite the AER's views on the reporting that would meet its transparency objective.

2.7 Transparency of quoted services

The AER's Victorian final decision requires distributors, before a customer agrees to receive a quoted service, to provide itemised invoices that show all cost components and, at a minimum, the information needed to demonstrate compliance with the control mechanism formula for quoted services.[47]

Ausgrid already provides a breakdown in our invoices of ANS service type and components of labour, contracted services and materials. We note we have recently engaged with the AER on our invoicing process. We have committed to providing greater transparency on our invoicing which we believe is beyond this requirement, including providing enhanced descriptions of the services being provided.

We seek clarification on what the requirement imposed on the Victorian DNSPs would look like in practice and how this differs from our existing practice.

[47] AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, p. 23.

Appendix A: Our proposed control mechanism for standard control services

We propose that the revenue cap formulae for standard control services in the AER's April 2026 final decision for the Victorian distributors apply as the default formulae for Ausgrid in the 2029-34 period. Table A-1 reproduces those formulae, with the addition of the Proven Trial factor (PTt), and Table A-2 sets out the definitions of each variable.[48] Amendments to reflect the PTt factor are in **red**.

Table A-1 Revenue cap formulae for standard control services

Formula	Equation	Where
1.	$TARt \geq \sum^{n}i=1 \sum^{m}j=1 p^{ij}t\, q^{ij}t$	i = 1, …, n j = 1, …, m t = 1, 2, 3, 4, 5
2.	TARt = AARt + It + Bt + Ct + **PTt**	t = 1, 2, 3, 4, 5
3.	AARt = ARt	t = 1
4.	$AARt = AARt{-1} \times (1 + \Delta CPIt) \times (1 - Xt)$	t = 2, 3, 4, 5
5.	Bt = bt + At	t = 1, 2, 3, 4, 5
6.	$bt = -Ot \times (1 + WACCt)^{0.5}$	t = 1, 2, 3, 4, 5
7.	$At = a^{1}t + a^{2}t{-1} \times (1 + WACCt) + a^{3}t{-2} \times (1 + WACCt{-1}) \times (1 + WACCt)$	t = 1, 2, 3, 4, 5
8.	WACCt = (1 + rvWACCt) × (1 + CPIt) − 1	t = 1, 2, 3, 4, 5

Variable	Definition
t	the relevant regulatory year, with t = 1 being the 2029–30 financial year. For example, where t = 1 = 2029–30, t-1 = 2028–29, t-2 = 2027–28, and t-3 = 2026–27.
TARt	the total annual revenue for year t, calculated as per formula 2 above.
pijt	the price of component 'j' of tariff 'i' for year t.
qijt	the forecast quantity of component 'j' of tariff 'i' for year t.
ARt	the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t.
AARt	the adjusted annual smoothed revenue requirement for year t, calculated as per formulae 3 and 4 above.
It	the sum of incentive scheme adjustments for year t. Where applicable, incorporates revenue adjustments relating to the outcomes of:[49]

[48] AER, Victorian Final Decision, Attachment 12, Control mechanisms, April 2026, Figure 12-1, pp. 4-6.

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

Formula	Equation	Where
		• 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 2024–29 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.
Bt		the sum of annual adjustment factors for year t, calculated as per formula 5 above. It includes: • 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.
Ct		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.
PTt		the Proven Trial factor for year t, which recovers the net cost of any expansion of the Community Power Network concept approved by the AER during the 2029–34 regulatory control period. PTt = 0 unless and until the AER has confirmed in writing that the conditions for the expansion set out in this distribution determination have been met. Where those conditions have been met, PTt = CPNt − BSt, where: • CPN_t is the annual revenue requirement for the approved expansion assets in year t, comprising the return on capital, regulatory depreciation, operating expenditure and corporate income tax building blocks, calculated using the PTRM and the parameters approved in this distribution determination. These costs are not included in ARt.

Formula	Equation	Where
		• BS_t is the benefit sharing amount for year t, being the wholesale market and other revenue earned from the approved expansion assets in regulatory year t-2, adjusted for the time value of money consistent with formula 7 above.
ΔCPIt		the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) Quarterly All Groups, Australia50 from December in year t-2 to December in year t-1. For example, for 2030–31, t-2 is December 2028 and t-1 is December 2029.
Xt		the X factor in year t, incorporating annual PTRM updates for the trailing cost of debt.
bt		the true-up for the balance of the DUoS unders and overs account in year t, calculated as per formula 6 above.
Ot		the opening balance of the DUoS unders and overs account in year t as calculated by the method in Appendix B of the AER's April 2026 Victorian final decision, Attachment 12.
WACCt		the approved weighted average cost of capital (WACC) used in regulatory year t in the DUoS unders and overs account. 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.
At		the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above.
a1t		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.
rvWACCt		the real vanilla WACC provided in the annually updated PTRM for year t.

[50] 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.