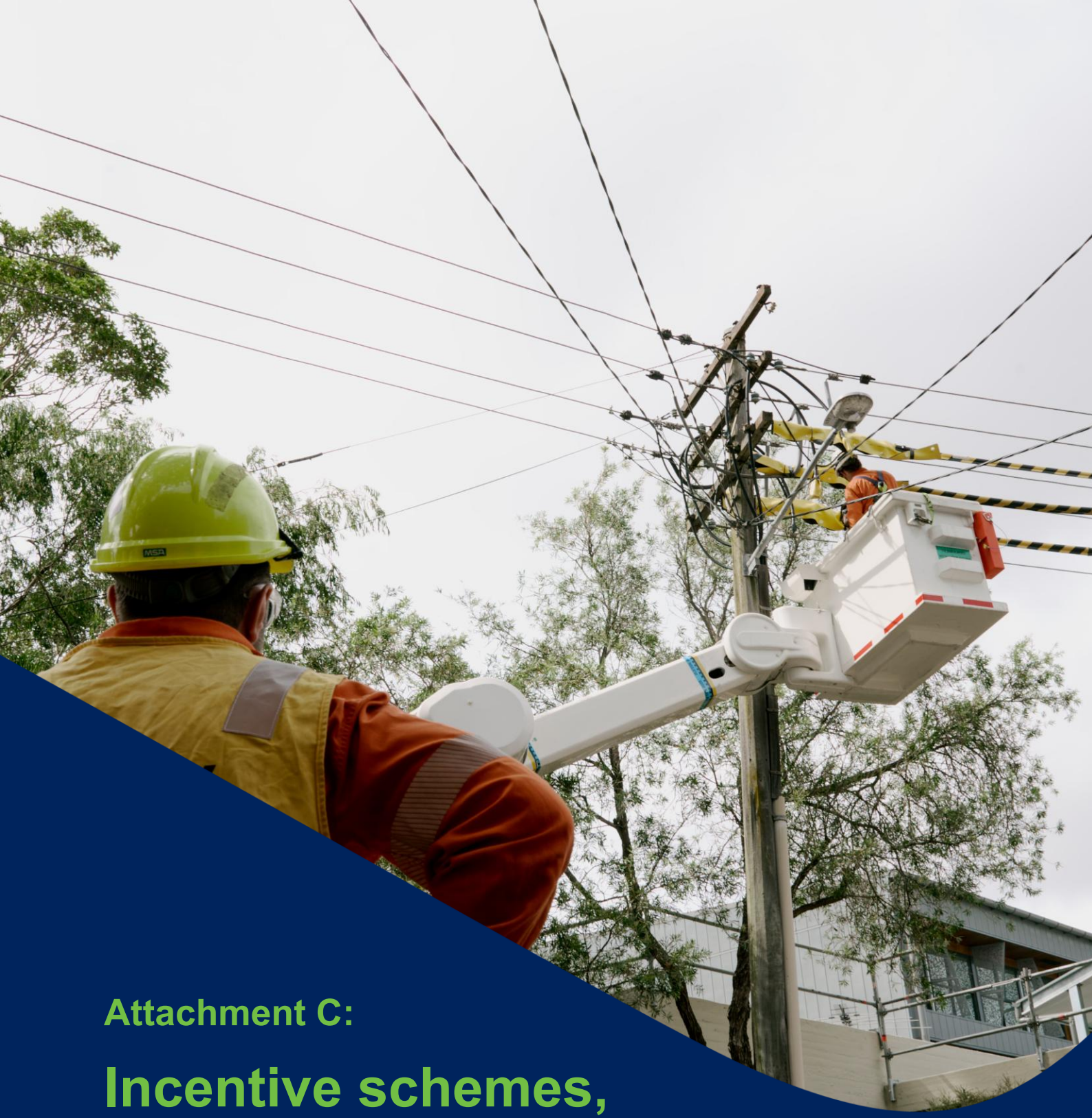


Attachment C:

Incentive schemes, depreciation & dual function assets

Framework and approach for the 2029-34 period

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1 Overview

The framework and approach (**F&A**) must set out how the Australian Energy Regulator (**AER**) will apply the following incentive schemes:

- the service target performance incentive scheme (**STPIS**);
- the efficiency benefit sharing scheme (**EBSS**) and the capital expenditure sharing scheme (**CESS**);
- the demand management incentive scheme (**DMIS**) and the demand management innovation allowance mechanism (**DMIAM**); and
- the customer service incentive scheme (**CSIS**) and the export services incentive scheme (**ESIS**).

The F&A must also state whether forecast or actual depreciation will roll forward the regulatory asset base (**RAB**). Ausgrid must also report the value of its dual function assets (**DFA**), so the AER can decide whether their revenue is priced under Chapter 6 or Part J of Chapter 6A of the National Electricity Rules (**NER**). Unlike the control mechanism, the F&A positions on these matters do not bind the distribution determination.[1]

Engaging at the F&A stage therefore mainly clarifies how the schemes will work in 2029-34, giving stakeholders greater certainty. Our initial positions are summarised below and set out in section 2.

Matter	Ausgrid's position…
Incentive scheme application	
CESS	Supports the CESS applying in 2029-34 under version 4 of the Capital Expenditure Incentive Guidelines, including: • the default volumetric adjustment for business-as-usual connections • the ex post adjustment for large bespoke connections not in the forecast Asks the AER to: • set out how it will assess real cost escalation for materials and contract labour using external indices • explain how it will apply the volumetric and ex post adjustments, and confirm the connection categories • indicate that Community Power Network expansion capex enters the CESS allowance only once approved through the Proven Trial factor (Attachment D, section 3.4)
EBSS	Supports the EBSS applying in 2029-34, with non-network option payments forecast separately and excluded under clause 1.4
DMIS and DMIAM	Accept DMIS and DMIAM
CSIS and ESIS	Expects to propose a CSIS, but not an ESIS
Utilisation	Is exploring a utilisation incentive, including how it would fit within the broader regulatory framework, and asks the AER to remain open to it
Depreciation approach	
Position	Supports forecast depreciation to establish the opening RAB at 1 July 2034
Dual function assets	
Position	Expects DFA revenue ($2,649 million, or 13.5 per cent of the total RAB at 1 July 2026) to remain priced under Part J of Chapter 6A

[1] National Electricity Rules, cll. 6.12.3(c) and (c1).

2 Initial positions

This section sets out Ausgrid's initial positions on the incentive schemes, depreciation and dual function assets for 2029-34. Where relevant, it identifies the matters on which Ausgrid seeks clarification from the AER in the F&A.

2.1 Capital expenditure sharing scheme

2.1.1 Application

Ausgrid accepts that the CESS should apply in 2029-34 as set out in version 4 of the Guidelines, subject to the clarifications set out below, including the treatment of Community Power Network expansion capex.

2.1.2 Business-as-usual connections

Ausgrid accepts the volumetric adjustment as the default for business-as-usual connections.[2] The adjustment removes from the CESS the effect of changes in the volume of connections, which distribution network service providers (**DNSPs**) have little ability to control. Ausgrid does not seek to opt out of it. In its April 2026 decision the AER rejected CitiPower's opt-out proposal.[3] Ausgrid nonetheless shares the concerns CitiPower raised in support of its proposal, namely that:

- volumetric and ex post adjustments give the AER significant regulatory discretion, creating uncertainty about how they will be applied; and
- the quality and consistency of regulatory information order (**RIO**) reported connection volumes can be relatively low, so forecast volumes based on that data are likely to be unreliable.

Ausgrid asks the AER to address these concerns in its F&A, by setting out how it will exercise its discretion in applying the volumetric and ex post adjustments, and by confirming the connection categories against which volumes will be forecast and reported. Clear and stable category definitions would reduce uncertainty in how the adjustments are applied and improve the consistency of reported connection volumes. To that end, Ausgrid proposes a classification of connection types that mirrors the connection classifications Ausgrid reports in "Template 2.5 | Connections" of its regulatory information order (**RIO**).[4] On that basis, business-as-usual connections would comprise:

- residential simple low voltage (**LV**), complex LV and complex high voltage (**HV**) connections;
- commercial and industrial simple LV connections, and complex HV connections where the customer is connected at LV, with either minor HV works or upstream asset works;
- subdivision complex LV connections, and complex HV connections with or without upstream asset works; and
- embedded generation simple LV connections, and complex HV (small capacity) connections.

Ausgrid will forecast connections by the categories in Template 2.5, with volumes and net unit rates for each category. In deciding whether and how to apply the volumetric adjustment, the AER will have regard to the manner and characteristics of a network's connections forecast methodology.[5] A forecast developed at this level gives the adjustment a transparent basis. However, because the adjustment prices changes in volume

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2 AER, Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, version 4, August 2025, pp. 7-8; AER, Capital Expenditure Incentive Guidelines Review 2025: Explanatory Statement for Final Guidelines, August 2025, pp. 27-28.

3 AER, Final decision: CitiPower distribution determination 2026-31, Attachment 6, Capital expenditure sharing scheme, April 2026, pp. 4, 7; AER, Final decision: Powercor distribution determination 2026-31, Attachment 6, Capital expenditure sharing scheme, April 2026, pp. 6-7.

4 AER, Final decision: CitiPower distribution determination 2026-31, Attachment 6, Capital expenditure sharing scheme, April 2026, Table 6-2, p. 3; AER, Final decision: Powercor distribution determination 2026-31, Attachment 6, Capital expenditure sharing scheme, April 2026, p. 3; AER, Final decision: AusNet Services distribution determination 2026-31, Attachment 6, Capital expenditure sharing scheme, April 2026, pp. 3, 7.

5 AER, Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, version 4, August 2025, p. 8.

at forecast unit rates, it does not protect Ausgrid against movements in input costs. Section 2.1.4 sets out how Ausgrid proposes that this risk be addressed in the forecast.

2.1.3 Large bespoke connections not in the forecast

Version 4 of the CESS allows the AER, after an ex post review, to reduce CESS penalties arising from large bespoke connections, and the associated network augmentation, that were not included in forecast capex.

Large bespoke connections would comprise:

- commercial and industrial complex HV connections where the customer is connected at HV, and complex sub-transmission connections;
- embedded generation complex HV (large capacity) connections; grid-connected batteries sought by customers or third parties (excluding batteries Ausgrid owns as network assets, including distributed batteries under Attachment A and Community Power Network expansion assets under Attachment D); and
- data centres (unless the AER accepts our negotiated service classification).

Ausgrid has proposed that the shared assets required to connect data centres be classified as negotiated distribution services and funded outside the RAB. If the AER accepts that proposal, data centre connections would no longer form part of the standard control services capex to which the CESS applies, and the large bespoke category would apply to the remaining connection types. Ausgrid asks the AER to give a preliminary view on this classification in its position paper.

In its April 2026 final decision for AusNet, the AER confirmed that it may reduce CESS penalties, after an ex post review, for large bespoke connections that were not in a DNSP's original forecast. The decision does not specify the period over which this adjustment applies. Ausgrid considers that it should apply over the same period as the ex post review of capex, which covers the first three years of the current regulatory control period and the last two years of the preceding period. This aligns the review with the actual expenditure available when a proposal is lodged. Large bespoke connections in the final two years of 2029-34 would be reviewed at the following determination, once actual costs are known. Ausgrid asks the AER to confirm this approach in its F&A.

2.1.4 Input cost escalation

Ausgrid does not seek any change to the CESS in respect of input cost movements. The AER has declined to provide CESS relief for material price movements, severe weather and changes in government policy, pointing instead to the pass-through, contingent project and reopener provisions.[6] It regards penalties on efficient overspends as a design feature of the NER.[7] The volumetric adjustment prices changes in volume at forecast unit rates.[8] The Guidelines ask networks to explain variances driven by changes in materials and labour costs,[9] but those explanations do not change the CESS outcome, which treats every variance from the allowance as an efficiency gain or loss.[10]

Taken together, these positions mean that the forecast is the only point at which input cost risk below the relevant materiality thresholds can be allocated. Ausgrid therefore asks the AER to set out in its F&A how it will assess real cost escalation for materials and contract labour, based on transparent external indices. This request concerns market-wide escalation in input costs. It does not extend to network-specific unit costs, which remain a matter for Ausgrid's proposal and the AER's assessment of it.

2.1.5 Community Power Network expansion capex

Attachment D proposes a Proven Trial factor in the control mechanism so that Community Power Network expansion costs are recovered only if the pilot meets agreed success metrics. Applied without adjustment, the CESS would reward Ausgrid if expansion capex were in the forecast and the pilot did not succeed, and penalise it if expansion capex were left out and the pilot succeeded. Ausgrid therefore proposes that expansion capex be excluded from the ex ante forecast and the connection categories, and added to the capex allowance for CESS purposes only when, and to the extent that, the AER approves it through the

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6 AER, Capital Expenditure Incentive Guidelines Review 2025: Explanatory Statement for Final Guidelines, August 2025, p. 31.

7 AER, Capital Expenditure Incentive Guidelines Review 2025: Explanatory Statement for Final Guidelines, August 2025, p. 24.

8 AER, Capital Expenditure Incentive Guidelines Review 2025: Explanatory Statement for Final Guidelines, August 2025, p. 39.

9 AER, Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, version 4, August 2025, p. 6.

10 AER, Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, version 4, August 2025, p. 3.

Proven Trial factor. This mirrors how the Guidelines already add contingent projects, pass throughs and reopeners to the allowance. Ausgrid asks the AER to indicate in its F&A that it is open to this treatment (Attachment D, section 3.4 and Appendix A).

2.2 Efficiency benefit sharing scheme

Ausgrid supports the EBSS applying in 2029-34.

Ausgrid intends to forecast non-network option payments as a separate category, based on its planned program rather than the single-year revealed cost approach. These payments vary from year to year and are expected to grow, so a single base year would not reflect efficient costs over 2029-34. Excluding the category from the EBSS would also remove any EBSS reward for underspending on these payments, so the scheme would not discourage Ausgrid from using non-network options where they are more efficient than network investment. Ausgrid asks the AER to confirm that, on this basis, it will exclude that category from the EBSS under clause 1.4 of the scheme.[11] Powerlink proposed excluding network support costs from the EBSS on this basis, and the AER accepted the exclusion in its 2027-32 draft decision for Powerlink.[12]

2.3 Service target performance incentive scheme and a utilisation incentive

Ausgrid supports the STPIS applying in 2029-34 with the settings used in recent F&As.

As outlined in its submission on Package 2 of the AEMC's Electricity Network Regulation Review, Ausgrid is in the early stages of exploring a utilisation metric. Any utilisation incentive would require consideration of how a utilisation metric fits within other aspects of the regulatory framework, including other incentives.[13]

2.4 Demand management and innovation

Ausgrid supports the DMIS and DMIAM continuing to apply in 2029-34.[14] Uptake of the DMIS has been limited, and Ausgrid's submission to the AEMC on the network regulation review explains why a deferral-sharing mechanism would be more effective in encouraging non-network options.[15]

In August 2025 the AER proposed a standard innovation allowance, set as a percentage of revenue on a use-it-or-lose-it basis, without project-by-project assessment.[16] Ausgrid asks the AER to indicate whether it intends to progress that proposal before the 2029-34 determination. If it does not, Ausgrid intends to pursue a trial rule for a standard innovation allowance, for example 0.5 per cent of revenue on a use-it-or-lose-it basis.[17]

2.5 Customer service and export service incentive schemes

Ausgrid expects to propose a CSIS, but not an ESIS, for 2029-34. Ausgrid is designing the CSIS with its customers, and its engagement program will shape the scheme's parameters.

2.6 Depreciation

Ausgrid supports the use of forecast depreciation to establish the opening RAB at 1 July 2034, consistent with the default position in the Guidelines.[18]

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11 AER, Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, November 2013, cl. 1.4.

12 Powerlink, 2027-32 Revenue Proposal, January 2026, p. 140; AER, *Draft decision – Powerlink electricity transmission determination 2027 to 2032 – Attachment 5 – Efficiency benefit sharing scheme*, September 2026, pp. 2, 6.

13 Ausgrid, Submission on the AEMC's Electricity Network Regulation Review Package 2, 24 September 2026, p. 26.

14 AER, Framework and approach: AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026-31, July 2024, pp. 18-19.

15 Ausgrid, Submission on the AEMC's Electricity Network Regulation Review Package 2, 24 September 2026, pp. 17-18.

16 AER, Letter to the Treasurer: Regulatory reform opportunities, August 2025, p. 5, as cited in Ausgrid, Submission on the AEMC's Electricity Network Regulation Review Package 2, 24 September 2026, p. 28, fn 15.

17 Ausgrid, Submission on the AEMC's Electricity Network Regulation Review Package 2, 24 September 2026, pp. 2, 28.

18 National Electricity Rules, cl. 6.8.1(b)(2)(ix); AER, Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, version 4, August 2025, p. 16.

2.7 Dual function assets

Ausgrid is required under Clause 6.25(a) of the NER to inform the AER of the value of its DFA as at 1 July 2026 by the end of October 2026. This is to enable the AER to determine how material the value of DFA is as a proportion of total RAB values of Ausgrid's standard control services. Based on this materiality, the AER then decides whether the revenue attributed to DFA are to be recovered under the pricing rules in Chapter 6 (distribution) or Chapter 6A (transmission) of the NER.

Some of Ausgrid's high voltage assets are DFA. Also, some of these high voltage assets are transmission exit assets. Ausgrid has calculated the indicative value of its DFA at 1 July 2026 at $2,640 million (nominal). The equivalent indicative value for distribution assets is $16,959 million (nominal), resulting in a DFA value of 13.5 per cent of the total RAB. Given the materiality of this value Ausgrid expects the AER to decide that the revenue associated with DFA will be priced under Part J of Chapter 6A, as it has been previously.