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Ms Clare Savage
Chair
Australian Energy Regulator
Level 17, Casselden Place
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Dear Ms Savage

Request for a replacement Framework and Approach paper – 2029-34 regulatory control period

I am writing on behalf of Ausgrid to request that the Australian Energy Regulator (**AER**) makes a replacement Framework and Approach (**F&A**) paper for the 2029-34 regulatory control period under clause 6.8.1(c)(1) of the National Electricity Rules (**NER**).

A replacement F&A is needed for Ausgrid to take into account changes in the energy sector and regulatory environment since the AER released its final F&A paper for Ausgrid, Endeavour Energy and Essential Energy for the 2024-29 regulatory control period on 29 July 2022. The key aspects of our submission on the F&A process include:

- retaining the revenue cap for standard control services and adopting the AER's April 2026 Victorian control mechanism formulae as the default for 2029-34
- classifying new services that let our network support the energy transition, namely leasing spare capacity in network batteries, installing and leasing kerbside electric vehicle (**EV**) chargers, Local Energy Precincts and distribution system operator (**DSO**) functions
- classifying the shared assets needed to connect identified data centres as negotiated distribution services, so that other customers do not carry their investment and credit risk through the regulatory asset base (**RAB**)
- adding a Proven Trial factor to the control mechanism, which gives our Community Power Network pilot a defined pathway to business-as-usual service if it meets agreed success conditions
- reclassifying legacy metering as a standard control service and classifying specialist calibration services as an alternative control service
- clarifying how the incentive schemes, particularly the capital expenditure sharing scheme (**CESS**), will apply in 2029-34.

These changes have been developed and refined through stakeholder engagement, including public consultation on a F&A Consultation Paper.

Our proposal seeks to:

- give customers, investors and stakeholders stable and predictable regulatory settings
- protect customers from risks they cannot manage, including volume risk and the credit risk of large new loads
- help customers get more value from the network assets they already fund
- settle, before we lodge our regulatory proposal in January 2028, the matters that the F&A binds and that cannot readily be revisited in the distribution determination.

The first of these aims, stable and predictable regulatory settings, is particularly important for the 2029-34 period. Networks will need to raise substantial new capital over 2029-34 to support the energy transition, and investors assess regulatory risk across the framework as a whole rather than decision by decision. Predictable settings keep financing costs down, which benefits customers through lower bills and timely investment. Certainty matters more now because the draft 2026 Rate of Return Instrument proposes lower equity beta and market risk premium values, reducing allowed returns just as investment needs are rising. The F&A should therefore avoid broad changes to the regulatory framework, such as a new form of control for all customers, unless there is clear evidence they would improve outcomes for customers. Moving away from the revenue cap would be one such change, as it would add volume risk while the compensation for risk is falling.

Retaining the revenue cap

We propose that the revenue cap continues to apply to our standard control services. When the AER last assessed the form of control in depth, it found that a revenue cap gives a higher likelihood that efficient costs are recovered. The two drawbacks it identified – price instability and weak pricing incentives – have since been addressed through cost-reflective pricing principles, tariff structure statements and side constraints.

We understand the AER's concern arises from uncertain demand from new large loads such as data centres, and from projected bill reductions that depend on that demand eventuating. These concerns call for targeted responses rather than a new form of control for all customers. A weighted average price cap (**WAPC**), or a hybrid, would tie revenue to volumes that networks cannot control, such as weather, government policy and customer uptake of consumer energy resources. A WAPC would also disincentivise networks to pursue demand management, flexibility and tariff reform.

This is particularly important as distributors take on a greater Distribution System Operator (**DSO**) role. Activities such as flexible connections, dynamic operating envelopes and coordinating consumer energy resources can reduce or shift energy delivered through the network. Under a WAPC, these activities could reduce network revenue even when they deliver savings to customers. A revenue cap avoids this conflict and better aligns network incentives with the DSO role agreed by Energy Ministers.

For data centres, we propose a more targeted solution: classifying the shared network assets needed to connect them as negotiated distribution services. This would help protect other customers from the investment and credit risks associated with these connections without changing the broader form of control.

These issues are closely linked. Connecting large loads efficiently will increasingly depend on flexible connections and demand response to make better use of existing network capacity. A WAPC would discourage these activities by reducing revenue when energy delivered through the network falls. Retaining the revenue cap would allow networks to pursue flexibility, accommodate growing demand and minimise costs for customers.

Control mechanism formulae for standard control services

We support adopting the formulae in the AER's April 2026 final decision for the Victorian distributors as the default for 2029-34, including the N factor in the side constraint. The N factor shows that the pricing effects of large new loads can be managed through targeted refinements to the revenue cap. We also ask the F&A to confirm that the A factor extends to revenue adjustments required by any trial rule or waiver during the period. This is separate from the new Proven Trial factor we propose for Community Power Networks below.

Service classification for the energy transition

We propose four classifications that would let customers get more from the assets they fund, while leaving competitive, customer-facing activities to the market.

- **Distributed batteries:** leasing spare capacity in network batteries below 5 MW would become a standard control service, removing the need for a ring-fencing waiver for each project. Only the share of each battery's cost that delivers network benefits, set by a cost-benefit analysis against the network alternative, would enter the RAB.
- **EV charging infrastructure:** we would own kerbside AC chargers, starting with those delivered under the Commonwealth's Accelerating EV Charging program, which the AEMC's September 2026 draft determination would also classify as a standard control service. Beyond that program, we would only install chargers in underserved areas where the market is not responding and customers who do not use them are no worse off. Retailers and e-mobility providers would have open access to serve drivers, and we would not sell energy or provide charging services.
- **Local Energy Precincts:** this gives our Community Power Network pilot a pathway beyond its time-limited sandbox waiver, with our return capped at a regulated return.
- **DSO functions:** Energy Ministers agreed in December 2025 that distributors will formally take on the DSO role. We have built on the AER's 2026-31 Victorian classifications to name the DSO functions we will perform throughout 2029-34.

Data centre connections

Under current arrangements, data centres that connect to our dual function assets may be funded outside of the RAB, while those that connect to the distribution network do not have the same pathway.

We propose that the shared assets needed to connect data centres become negotiated distribution services, mirroring the dual function asset framework. Data centres would still pay standard charges for the wider shared network, so the bill benefit of higher utilisation remains for all other customers. This aligns with recent government policy. The NSW Data Centre Policy Framework, released in August 2026, commits to reform so that those creating the need for new energy infrastructure bear its costs and risks, not existing consumers. Nationally, the Energy and Climate Change Ministerial Council has recommended reviewing cost recovery so that data centres cover their network upgrade and connection costs. Our proposal applies the same principle, and we are working with state and federal departments as these reforms are developed.

A pathway for Community Power Networks

The first independent research report on the pilot is due at the end of 2027, but evidence of sustained net benefits will not be available until after the distribution determination is made in April 2029. Without a pathway settled in the F&A, a successful pilot could not be expanded as a regulated service until July 2034 at the earliest. We propose adding a new Proven Trial factor to the revenue cap formulae, alongside the existing incentive, annual adjustment and pass through factors, that would remain at zero unless the AER confirms that specific, verifiable success conditions have been met. If the pilot is successful, our proposed control mechanism would allow us to recover the costs of AER-approved expansion assets, net of market revenues returned to customers. If the pilot does not succeed, customers fund no expansion. If it does, customers share in the savings and Ausgrid earns only a regulated return. Attachment D explains how this would work in practice, including the pilot's timeline, the success metrics drawn from the AER's trial waiver decision, the annual application timetable and the funding and true-up arrangements.

Metering and calibration services

We propose reclassifying legacy metering services as standard control services from 1 July 2029. The type 5 and 6 metering fleet will be fully depreciated, and the remaining fixed costs would otherwise fall on a small and shrinking group of customers. We also propose classifying specialist calibration services for external laboratories as an alternative control service, to help retain this specialist local capability.

Incentive schemes, depreciation and dual function assets

We support the incentive schemes continuing largely as applied in the existing 2024-29 F&A, as well as forecast depreciation. For the CESS, we ask the AER to set out how it will apply its discretion on connection adjustments and how it will assess real cost escalation using transparent external indices. We also ask it to indicate that Community Power Network expansion capex will enter the CESS allowance only once the AER approves it through the Proven Trial factor, as set out in Attachment D.

For the Efficiency Benefit Sharing Scheme, we ask the AER to confirm that non-network option payments will be excluded, so the scheme does not discourage efficient non-network solutions. Further, we propose that dual function asset revenue to continue to be priced under Part J of Chapter 6A.

Further details on our proposed changes for our F&A paper, and our stakeholder engagement process for this paper, are set out in Attachments A to D. We look forward to continuing to engage with the AER and stakeholders on the consideration of our F&A request.

If you have any questions in relation to this request, please contact Fiona McAnally, Head of Regulation, at Fiona.McAnally@ausgrid.com.au.

Regards,



Marc England
Chief Executive Officer