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22 October 2026

Ms Kami Kaur
Executive General Manager – Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

By email: kami.kaur@aer.gov.au

Dear Kami

FRAMEWORK AND APPROACH FOR ESSENTIAL ENERGY'S 2029–34 REGULATORY CONTROL PERIOD

Essential Energy's current regulatory control period concludes on 30 June 2029. In preparation for submitting our regulatory proposal for the 2029–34 period, Essential Energy requests that the Australian Energy Regulator (AER) review and, where appropriate, replace or update the applicable Framework and Approach (F&A) in accordance with clause 6.8.1 of the National Electricity Rules.

The distribution sector continues to experience significant technological, customer and policy-driven change. Since the commencement of the current regulatory period, there have been developments relating to distributed energy resources, electrification, resilience, customer expectations, data and digital capabilities, and evolving network services. As such, Essential Energy considers it appropriate for the AER to review the existing F&A to ensure it remains fit for purpose for the 2029–34 regulatory control period.

Essential Energy has commenced engagement with customers and stakeholders through its Essential Stakeholder Panel, Essential Peoples Panel and broader customer engagement program. Early feedback indicates strong support for a regulatory framework that:

- Maintains reliability, safety and affordability for customers
- Supports an orderly and equitable energy transition
- Recognises the increasing role of distribution networks in integrating consumer energy resources
- Encourages efficient investment in network resilience and adaptation.

Classification of Services

The classification framework should be reviewed to ensure it appropriately accommodates emerging and evolving network services, particularly:

- Distributed Battery Energy Storage Systems (DBESS)
- EV charging-infrastructure (EVCI)

- Smart Public lighting and metering services where regulatory treatment may require clarification (Type 9 metering)

Further developments on the role of distribution network service providers (DNSPs) to support the energy transition are emerging. We acknowledge stakeholder concerns that adding any additional costs should be supported by clear net benefits to energy consumers which promote the long-term interests of consumers in line with the National Electricity Objective (NEO). Essential Energy intends to continue collaborating with stakeholders and NSW DNSPs to develop approaches that deliver value to network customers in aggregate, while remaining efficient, and where appropriate, jurisdictionally consistent. This includes considering benefits that accrue to specific locations, while accounting for broader societal benefits and those that occur across the network. Appendix A includes further detail for the AER to consider in regard to emerging or evolving services.

Form of Control

The AER has indicated that they are considering reviewing the form of control with a focus on whether a price cap rather than a revenue cap may be more appropriate for standard control services. Essential Energy's view is that the existing form of control continues to provide stability and appropriate incentives for DNSPs. As a rural and regional network, we are not anticipating the same level of demand growth as other more urban DNSPs and therefore consider the continuation of a revenue cap for standard control services provides the best balance of risk for our customers. Our stakeholder panel also considered that challenges associated with a revenue cap are easier to manage than those associated with a price cap. Any change to the form of control is a critical factor in how Essential Energy develops its 2029-34 Tariff Structure Statement (TSS), including engaging with customers and stakeholders, and how we undertake our pricing practices.

We also note that the Australian Energy Market Commission's (AEMC's) Electricity Network Regulation Review (ENRR) is currently underway, with risk allocation a key topic, however any outcomes from that will not be ready in time for the AER's Final F&A due in July 2027. We will engage with the AER as they work through this topic but suggest that it may be more appropriate for the ENRR process to be worked through before the AER considers material changes on this topic.

Incentive Schemes

Essential Energy supports the continued application of incentive schemes that promote efficient expenditure and improved customer outcomes. The F&A should reflect the latest approved incentive scheme frameworks and any amendments arising from current AER reviews. We have discussed incentive schemes with our customers and stakeholders and will be engaging further on a co-designed Customer Service Incentive Scheme (CSIS) for 2029-34, but do not intend to put forward an Export Service Incentive Scheme (ESIS). We request the continued application of the Service Target Performance Incentive Scheme (STPIS), the Efficiency Benefit Sharing Scheme (EBSS), the Capital Expenditure Sharing Scheme (CESS), the Demand Management Incentive Scheme (DMIS), and the Demand Management Innovation Allowance Mechanism (DMIAM).

Dual Function Assets

In light of the Renewable Energy Zones and the NSW Distribution System Plan, Essential Energy has been reviewing its assets and now considers that we hold existing assets that are Dual Function Assets (DFAs) under the NER 6.24. These assets are part of Essential Energy's high-voltage network and provide transmission network support.

The value of these assets is $273m, which is 2.37% of Essential Energy's regulatory Asset Base (RAB), as of 1 July 2026. We do not consider this to be a 'material' proportion of the RAB. Under NER 6.25 we ask the AER to confirm that distribution pricing continues to apply to these assets for 2029-34 regulatory period,

Supporting a Resilient and Customer-Focused Energy System

The 2029–34 period is expected to involve substantial transformation across the electricity sector. The F&A should support efficient investment that is able to retain its currency, while providing an appropriate balance between affordability, reliability, safety, resilience and customer choice.

Essential Energy looks forward to working collaboratively with the AER, customers and stakeholders throughout the F&A process. Our views will continue to evolve as engagement and analysis progress over the coming months, and subsequent submissions will reflect feedback received through this process.

Should you have any questions, please contact Mary-Clare Crowley, our Head of Network Regulation via mary-clare.crowley@essentialenergy.com.au.

Yours sincerely,



Stacey Sleeman
Chief Financial Officer

APPENDIX A

Supporting reasons for Essential Energy's proposed service classification changes

PROVIDING THIRD-PARTY ACCESS TO DNSP-OWNED ASSETS

Essential Energy requests that the AER consider the appropriate regulatory treatment of the following services, which are intended to support efficient use of DNSP-owned assets while preserving competition in customer-facing and energy-market activities. Each service raises distinct classification considerations and is addressed separately below.

Electric vehicle charging infrastructure

Customers in many rural and regional communities have limited access to public EV charging, particularly where low initial utilisation and dispersed demand do not support commercial deployment. This limits customers' ability to adopt EVs and access associated transport-energy savings, while delaying more productive use of existing network capacity. The purpose of Essential Energy's targeted role would be to address that infrastructure gap and support EV adoption – not to create a new contestable revenue stream for Essential Energy. Under a revenue cap, additional EV load can increase utilisation of existing network assets and, all else being equal, spread allowed network revenue across greater network use, placing long term downward pressure on average network charges for all customers, not only EV drivers.

Essential Energy proposes to address this service gap by providing DNSP-owned kerbside AC charging infrastructure in targeted underserved locations, with Charge Point Operators (CPOs) and retailers competing at the charge point to provide pricing, billing and other customer-facing services.

Essential Energy proposes that this open-access infrastructure service be classified as a standard control service (SCS). The service would not be requested by, or provided for the sole benefit of, an identifiable CPO. Rather, shared infrastructure would be available to multiple and potentially changing service providers and would support broader customer outcomes through improved regional access, more efficient use of existing network capacity and the achievement of emissions-reduction targets. Classification as a SCS would therefore support the efficient delivery of the enabling infrastructure while preserving competition and innovation in all customer-facing services. Deployment would be targeted to locations where commercial provision is absent or unlikely within the relevant timeframe. Open, non-discriminatory access would allow multiple CPOs to compete at the charge point, increasing customer choice and placing competitive pressure on charging prices.

The appropriate regulatory treatment of EVCI is also being considered through the AEMC's rule changes concerning DNSP-led kerbside EVCI and Commonwealth-supported EVCI, together with the related ring-fencing reforms being examined under Package 1 of the Electricity Network Regulation Review. As these processes will be materially advanced, and in some cases concluded, during the F&A process, the AER should anticipate and incorporate their outcomes when developing the service description, classification and associated safeguards for the 2029–34 period.

Distributed battery energy storage systems

Distributed batteries can be an efficient means of addressing local network constraints, improving reliability and increasing the capacity of the network to accommodate customer solar and other consumer energy resources. Once the capacity required to meet the identified network need has been reserved, however, parts of the battery may otherwise remain unused. Allowing third parties to access spare capacity would return additional value to customers through better asset utilisation and, where applicable, shared leasing revenues that reduce network costs, while enabling contestable energy-market services to be provided by third parties.

Essential Energy proposes that the capacity required to provide the network service continue to be treated as a standard control service, with only the efficient share of costs attributable to that network purpose recovered from customers. The separate service of providing third-party access to spare battery capacity should be recognised as an unclassified distribution service, with retailers, aggregators and other third parties – not Essential Energy – undertaking contestable energy-market activities. This treatment would promote efficient investment and asset utilisation, support reliability and the integration of renewable energy, and protect customers from cross-subsidising contestable services. It should be developed alongside the AER's Ring-fencing Guideline and Shared Asset Guideline reviews so that cost allocation, revenue sharing and competitive neutrality are addressed consistently.

The proposed treatment would not remove the safeguards protecting customers and contestable markets or permit the costs of contestable activities to be recovered from standard control service customers. Where appropriate safeguards can be embedded in enduring regulatory arrangements, it would reduce the need for repeated project-specific waiver applications and the associated regulatory cost and delay ultimately borne by customers, while retaining appropriate cost-allocation, reporting, non-discrimination and competitive-neutrality protections.

In developing its preliminary and final F&A positions, the AER should also have regard to the outcomes of the related AEMC processes concerning DNSP-led EVCI, Commonwealth-supported EVCI and ring-fencing in emerging energy markets. Those processes will be materially advanced or concluded before the 2029–34 regulatory control period and are likely to directly inform the permissible role of DNSPs, the boundary between regulated and contestable activities, and the safeguards applying to these services.

TYPE 9 METERING SERVICES FOR PUBLIC LIGHTING

Essential Energy requests that the AER clarify the existing public lighting service grouping to include Type 9 metering services provided in relation to public lighting assets and classify those services as direct control services and then as alternative control services.

Essential Energy has mandatory, non-discretionary obligations under the NSW Public Lighting Code and its distribution licence concerning the availability, operation, maintenance, fault response, emergency response and performance of public lighting. Modern smart-lighting control devices are integral to delivering those services; their primary functions include switching, dimming, monitoring and fault diagnostics, with Type 9 energy measurement provided as a secondary, in-built function. The control and metering functions cannot be practically separated for installation, maintenance or fault response. Treating the metering component as a standalone contestable service would therefore separate operational control from regulatory accountability, potentially delay the restoration of lighting, duplicate site attendance and increase safety risks and costs for public lighting customers.

Classifying these activities as direct control services would recognise that they are integral to the regulated public lighting service Essential Energy is required to provide, rather than an optional service that Essential Energy elects to offer in competition with other providers. Classification as alternative control service is appropriate because the service is provided to identifiable public lighting customers – principally local councils and road authorities – and its costs can be directly attributed to those customers. This would also maintain consistency with the existing classification of public lighting services and provide transparent, regulated prices.

This treatment would promote the efficient operation and use of electricity services in the long-term interests of customers. It would allow existing smart-lighting capability to be used fully, avoid installing separate or duplicative metering equipment, support timely fault detection and restoration, and preserve clear accountability for safe and reliable public lighting. Any additional services enabled by smart-lighting infrastructure that are not integral to delivering the regulated public lighting service would remain subject to the ordinary service-classification and ring-fencing arrangements.

This approach is consistent with the AER's Victorian 2026–31 final determinations, which classified Type 9 metering services that Victorian DNSPs are required to provide to public lighting customers as direct control and then alternative control services within the existing public lighting service group. The AER reached that conclusion despite Type 9 metering being technically voluntary and customers having some provider choice, placing greater weight on its integration with smart public lighting, consistency with related public lighting and metering services, transparent pricing and the ability to attribute costs directly to public lighting customers. The same considerations apply – and apply more strongly in NSW – where DNSPs remain directly accountable for delivering mandatory Public Lighting Code outcomes.

NETWORK MATERIALS TESTING AND VERIFICATION SERVICES

Essential Energy proposes to introduce a change to the existing service grouping of "Authorisation and approval of third-party service providers' design, work and materials". This proposed change expands the description to include testing and verification services.

Essential Energy operates a laboratory facility whose primary function is to test and verify materials and components for use on Essential Energy's network – ensuring that only suitable, high-quality assets are deployed. Over time, our reputation for technical rigour has led to requests from other DNSPs, product manufacturers, and external entities to access the facility for similar testing and evaluation. These services have been provided at no cost, as part of Essential Energy's commitment to network safety and sector collaboration. However, with increasing demand and the need for transparent, equitable access, there is a clear rationale to formalise these services and introduce a fee-for-service model where appropriate. These services provide a direct benefit to the requesting party, are suitable for recovery on a user-pays basis and can be appropriately classified as Alternative Control.