FINAL DECISION

AusNet Services Distribution Determination 2021 to 2026

Overview

April 2021

AUSTRALIAN ENERGY REGULATOR

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Executive summary

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future. We regulate energy networks in all jurisdictions except Western Australia. This final decision sets out the amount of money AusNet Services can collect from electricity consumers for using its network over the 2021–26 regulatory control period.

AusNet Services owns and operates one of the five electricity distribution network service providers in Victoria and services around 737 000 customers across the east of Victoria, from the edge of Melbourne to the border with New South Wales.
On 31 January 2020, AusNet Services submitted its regulatory proposal for the five year regulatory control period commencing 1 July 2021. On 3 December 2020, AusNet Services submitted a revised proposal in response to the AER's draft decision of 30 September 2020.

AusNet Services demonstrated a commitment to putting its consumers at the centre of its decision-making through its negotiations with its Customer Forum (part of our New Reg trial) which had a strong influence on its initial and revised proposals. As a consequence of the quality and outcomes of this engagement, our draft decision accepted most of AusNet Services' initial proposal including its capital expenditure (capex) proposal which was 19 per cent below its current regulatory period spend subject to adjustments related to changes in economic conditions.

In its revised regulatory proposal, AusNet Services went beyond the requested updates and proposed additional capex. Based on our rigorous assessment of the capex categories that had revised forecasts beyond what we assessed in the draft decision, we reduced AusNet Services' revised capex forecast particularly for new connections. We accepted the majority of proposed operating expenditure (opex) in our draft decision and AusNet Services revised proposal raised bushfire liability insurance premium forecast cost increases, an important issue. We worked collaboratively to determine an efficient forecast insurance premium amount and have included it in the total opex we approved.

We are satisfied that the amount of money we have allowed AusNet Services to recover from consumers is no more than necessary to replace ageing infrastructure and operate its network in a safe and reliable manner in the long term interest of consumers.

AusNet Services can recover $3470.5 million ($ nominal) from its consumers over the 2021–26 regulatory control period. In real terms, this is 1.6 per cent higher than the revenue allowed for in our 2016–20 final decision and leads to higher network charges for AusNet Services' consumers from the next regulatory control period.

The revenue we allow forms the distribution network component of retail electricity bills, making up about 34 per cent of a standard residential bill (39 per cent for small businesses).

We estimate that AusNet Services' distribution network and metering charges in the first year of the 2021–26 regulatory control period will increase by $27 (1.6 per cent) for residential consumers and $95 (1.2 per cent) for small business consumers, relative to charges in 2020. Thereafter, these charges are estimated to increase by $4 (0.2 per cent) and $21 (0.3 per cent) per year respectively.

We are mindful that estimated distribution network charges for AusNet Services' consumers will increase while those for the other Victorian distribution businesses decrease. This increase does not mean that AusNet Services' consumers are paying more than necessary, rather the differences between businesses do sometimes result in differing outcomes at a point in time.

AusNet Services' annual revenue requirement for the 2021–26 regulatory control period reflects a real increase relative to its current regulatory control period (2016–20). This increase is largely driven by increased regulatory depreciation being recovered from consumers over 2021–26 regulatory control period because AusNet Services spent money on capex in the current (2016-20) period which increased its asset base. This asset base growth, one of the highest relative to the other Victorian distribution businesses, is driven by the investments it made to address bushfire risk. While AusNet Services' asset base has grown, it still spent less than the efficient and prudent level of total forecast capex approved in our 2016 final decision. Money spent on capex is added to the asset base and recovered from consumers through return of (depreciation) and on (cost of capital) capital.

While the current regulatory control period saw a high asset base growth impacting the network charges in the next regulatory period, in this final decision AusNet Services' forecast capex is 21.3 percent lower than what it spent over the current regulatory period. This should result in its asset base stabilising over the 2021–26 period to one of the lowest asset base growth levels relative to other Victorian distribution businesses and thus benefit consumers in future periods through lower return of and on, capital recovered through network charges. Customer Forum negotiation played a significant part in this outcome. AusNet Services' actual opex in the current regulatory period is also below the amount we forecast in our 2016 final decision. Consumers benefit from this lower revealed amount because it is used as the starting point to forecast the efficient level of opex in the next regulatory period.

We note that $12 of the estimated $27 increase in the first year of the 2021–26 regulatory control period is due to AusNet Services' Advanced Metering Infrastructure (AMI) charges (metering charges). This first year (2021–22) increase is a result of us applying the revenue recovery profile which was the outcome of the AER's 2018 AMI decision. AusNet Services' profile differs from the other distributors and therefore they do not have an increase in 2021–22. This first year increase occurs as AusNet Services' revenue recovery for metering services returns to trend after the adjustments relating to the AER's 2018 AMI decision. The 2018 AMI decision resulted in a larger adjustment for AusNet Services than the other Victorian businesses, with a revenue recovery profile being set for three years to account for this outcome, in contrast to the one year adjustment for the other businesses.

Our estimate of AusNet Services' first year bill increase is also affected by adjustments for previous revenue over recoveries (or B-factor) which reduced its revenue in 2020. This reduction, which is the highest among the Victorian distribution businesses, accentuates the size of the revenue increase from 2020 to 2021–22 and accounts for around $5 of the standard control service bill increase of $15 in 2021–22.

Finally, our approach to estimating network charges uses the change of revenue we allow divided by demand (energy consumption) forecast. This means a lower demand forecast results in a higher price. AusNet Services submitted that for reasons including energy efficiency improvements, growth in solar PV and changes in consumer behaviour, its demand is forecast to decrease over the 2021–26 regulatory control period. Whereas the other Victorian distribution businesses' demand is forecast to increase. Consumers have already seen changes from last years prices because new distribution network charges were passed through to Victorian consumers for six months on 1 January 2021 with the introduction of the *National Energy Legislation Amendment Act 2020* (Vic) (NELA Act).[1] In making this final decision we updated a range of components that were used to calculate the lower distribution network charges that were passed on to consumers on 1 January 2021. In particular, we updated the rate of return to reflect movements in interest rates and our revised estimate of expected inflation. As a result of these updates, distribution network charges starting 1 July 2021 will be 6.4 per cent higher than the distribution network charges that were set on 1 January 2021, and 1.6 per cent higher than the distribution network charges that were in place in 2020. We still need to consider other factors that will impact the final distribution network charge that consumers and business pay – these will be considered when we assess AusNet Services' annual pricing proposal.[2]

In making this final decision we have had regard to a range of sources including AusNet Services' revised proposal, submissions received, as well as analysis undertaken and published by us.

AusNet Services' engagement with consumers

A key development of the 2021–26 determination has been the positive shift by the distributors in relation to improved consumer engagement.

In recognition of this evolution, in our draft decision, we developed a framework, to assess the consumer engagement activities of the Victorian distributors which is replicated at appendix C.[3] This framework informed how we viewed this engagement in

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1 The intention of the NELA was to change the timing of the regulatory control period for electricity distribution networks from a calendar year basis to a financial year basis, to align with other NEM states. We separately assessed the total allowed revenue for AusNet Services for the six month period from 1 January 2021 to 30 June 2021. See our final decision of 28 October 2020 at https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2021-26/aer-position#step-72919.

2 See Pricing proposals & tariffs webpage on the AER's website: https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs.

3 AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview, September 2020*, Table 7, p. 46.

relation to the initial expenditure proposals and our overall assessment. Stakeholder submissions provided positive support and feedback on this approach and we plan to undertake further stakeholder consultation on the future design of the framework following completion of the Victorian reset.

We recognise that consumer engagement can take many different approaches and to assist in the final decision we have continued to refer to the framework as outlined in the draft decision, which provides a benchmark for the discussion. We acknowledge that each distributor approached engagement differently and AusNet Services demonstrated this innovation through the New Reg trial. This engagement drove greater levels of involvement by consumers, and sought their feedback and influence at a greater level of detail, over a broad range of topics. One notable innovation arising from negotiations with the Customer Forum is the Customer Service Incentive Scheme, which provides an incentive for AusNet Services to continue to monitor and improve the customer experience.

AusNet Services initial proposal included selected components of its capital expenditure that were negotiated with its Customer Forum. Having regard to the quality and outcomes of this engagement, and our top-down analysis, our draft decision accepted its expenditure forecast, subject to a number of adjustments, largely due to changed economic conditions. In response to our draft decision, the Customer Forum reaffirmed its support for the positions it took in its final engagement report.[4] In the revised proposal, AusNet Services included a number of new expenditure items, which were not subject to our previous assessment or negotiated in the initial discussions with the Customer Forum. We maintained our top-down assessment from the draft decision, but also conducted a bottom-up assessment of the additional capex and opex step change for insurance premiums.

Consumer engagement models will continue to mature over time. Ongoing development of the framework will support businesses to develop proposals that are prudent and efficient, and demonstrate the express views and support of consumers.

Ensuring consumers pay no more than necessary for safe and reliable services

Ensuring consumers pay no more than necessary for safe and reliable electricity is a cornerstone of the regulatory determination process. We must assess whether a business' proposal is a reasonable and realistic forecast of how much money it needs for the safe and reliable operation of the network. It also involves encouraging distributors to explore how they can provide better services at lower cost through a range of incentive schemes.

Our final decision finds AusNet Services' opex acceptable but the reproposed capex which is higher than our draft decision, not acceptable.

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[4] CF final engagement report; AusNet Services RRP, Appendix #A – Customer Forum Memo – December 2020, p.1-3.

Our final decision total forecast capex amount is $1,384.1 million which is about 3 per cent lower than AusNet Services' revised proposal.

AusNet Services' initial capex proposal was 19 per cent below its current regulatory period capex and we accepted it subject to adjustments to address changes in economic conditions, reclassification of some expenditures and corrections. Our top down and bottom up assessments found the initially proposed capex largely acceptable with the exception of adjustments for real cost escalation and connections to better account for COVID-19 effects.

AusNet Services' acknowledged us accepting its initial capex proposal but redeveloped a few capex category level forecasts leading to a total capex amount that was 5 per cent higher than our draft decision.

We carefully assessed the proposed capex changes and found that they are mostly acceptable except for how AusNet Services developed its net connections capex amount. Our analysis resulted in a $48 million increase in capital contributions leading to a corresponding decrease in the net connections capex that is included in our total capex forecast. We also reduced AusNet Services' rapid earth fault current limiter (REFCL) compliance related capex by $4 million as some of the program could prudently be deferred to beyond the 2021–26 regulatory control period.

Our final decision accepts AusNet Services' updated revised total opex proposal of $1238.7 million ($2020–21). This is because it is not materially different to our alternative opex estimate of $1226.8 million ($2020–21). We acknowledge there is some uncertainty with future insurance premium forecasts, but believe businesses should be incentivised through our framework to achieve efficient outcomes and lower prices for consumers in subsequent periods by including these costs in the total opex forecast. AusNet provided a higher updated revised proposal with a step change of $45.1 million ($2020–21) for these future premium increases. We considered this was reasonable and have accepted it as a part of its total opex proposal. As a result we have not accepted the proposed insurance premium event nominated cost pass through for the 2021–26 regulatory control period.

Having reviewed an application by CitiPower, Powercor and United Energy, we determined that the annual payments made by the Victorian distributors to Energy Safe Victoria (ESV) are a jurisdictional scheme.[5] This final determination includes a decision on how AusNet Services is to report to the AER on its recovery of amounts for the scheme and on adjustments made in pricing proposals to account for over or under recovery. For all Victorian distributors, it will now be recovered through annual prices rather than the allowed (opex) revenue we set in our decision.

[5] See https://www.aer.gov.au/communication/aer-makes-determination-on-cpus-application-for-a-jurisdictional-scheme.

Transition of the energy system

Facilitating the transition of the energy system is a key theme for this Victorian regulatory determination process. Mechanisms such as expenditure to physically accommodate greater solar exports, tariff price signals and demand management initiatives can help. We consider the transition of the energy system so important that we have made incentivising networks to become platforms for energy services a strategic objective in our regulation of networks.

We accepted AusNet Services' initial proposal on the amount of capex required to facilitate and integrate distributed energy resources (DER) on its network. Our decision supports AusNet Services accommodating solar PV growth on its networks to achieve consumer expectations regarding the Victorian Government's Solar Homes program.

We have engaged extensively with stakeholders in the development of consistent DER integration expenditure guidelines. We published CSIRO and CutlerMerz's final value of DER (VaDER) methodology study in November 2020. However, the Australian Energy Market Commission (AEMC) recently published draft rule changes which have implications for our DER integration expenditure guideline, which will delay its finalisation.[6]

Cost reflective network tariffs also have an important part to play in the energy transition by incentivising the location and use of DER to optimise benefits to consumers and networks.

We are encouraged by the Victorian distributors' efforts to progress network tariff reform during the 2021–26 regulatory control period. The distributors moved from opt−in to opt−out assignment to the new default time of use tariff for consumers receiving a new meter or who upgrade their connection. By working collaboratively with their stakeholders[7] they developed small consumer tariff proposals with aligned, more targeted peak charging windows. We are also pleased to see the Victorian distributors reassigning small consumers on legacy cost reflective tariffs to a new and more targeted default time of use tariff.

We engaged rigorously with the electric vehicle (EV) sector and heard many different perspectives. We encourage electric vehicle charging station and energy storage proponents to engage with the Victorian distributors on tariff trials. We see trials as a valuable way of proving out new and innovative service models to inform future network tariffs.

Our view is that it is important that EV charging stations face cost reflective network tariffs to minimise new network investment that increases costs for all consumers. Consistent with our view, charging stations which install load limiting devices can

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6 See https://www.aemc.gov.au/rule-changes/access-pricing-and-incentive-arrangements-distributed-energy-resources.

7 This included retailers and jurisdictional government entities

access alternative cost reflective tariffs. Our final decision also makes clear, consistent with Victorian Government policy, that once small consumers with an EV are identified they must be assigned to a cost reflective network tariff.

We consider storage assets should both contribute to recovery of network costs commensurate with their network use and see cost reflective price signals to guide their operation. Our final decision on stand-alone grid scale storage connected to the Victorian networks is to assign such consumers according to the usual tariff classes unless they are only providing network support services. Regardless, ownership of storage assets should not affect tariff class assignment.

Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to AusNet Services for the 2021–26 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment A – Negotiating framework

Contents

1 Our final decision

Our final decision allows AusNet Services to recover a total revenue of $3470.5 million ($ nominal) from its consumers from 1 July 2021 to 30 June 2026. AusNet Services is regulated using a revenue cap. Incentives are provided to it to reduce costs, improve service quality and undertake efficient investments.

Our final decision for AusNet Services determines the total revenue it can recover from consumers for the provision of common distribution services (standard control services (SCS)). This forms the basis of AusNet Services' distribution tariffs for the 2021–26 regulatory control period. AusNet Services' Tariff Structure Statement (TSS) sets out the tariff structure through which it will recover its regulated revenue for SCS from consumers.

AusNet Services also provides alternative control services (ACS), the costs of which are recovered only from users of those services. These costs are considered separately to our building block determination.[8] Our final decision sets out the prices AusNet Services is allowed to charge consumers for the provision of ACS: ancillary network services, public lighting and total revenue for metering. AusNet Services has not proposed to provide any services on a negotiated basis in the 2021–26 regulatory control period.[9]

We have taken AusNet Services' consumer engagement into account in developing our final decision. More information is provided in section 3.

1.1 What's driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capital and operating expenditure) in real terms (using 2020–21 as a common year) to reveal the underlying cost trends over a number of years or regulatory control periods. The numbers presented in this overview are in real 2020–21 dollars unless otherwise noted. Some aspects of our decision are presented in nominal terms to be consistent with the National Electricity Rules (NER) and to enable consumers to see the full impact of our determination inclusive of expected inflation.

The total revenue allowance in this 2021–26 final decision is 1.6 per cent higher than the revenue provided for in our 2016–20 final decision in real terms. Although real revenues fall throughout the 2021–26 regulatory control period, they do not fall at such a pace that prevents an overall increase in real revenues when comparing across the two periods as a whole. Figure 1 shows real revenue stays flat from 2020 levels to the first year of the next regulatory control period. After that, AusNet Services' revenue allowance falls in real terms by 1.7 per cent per year.

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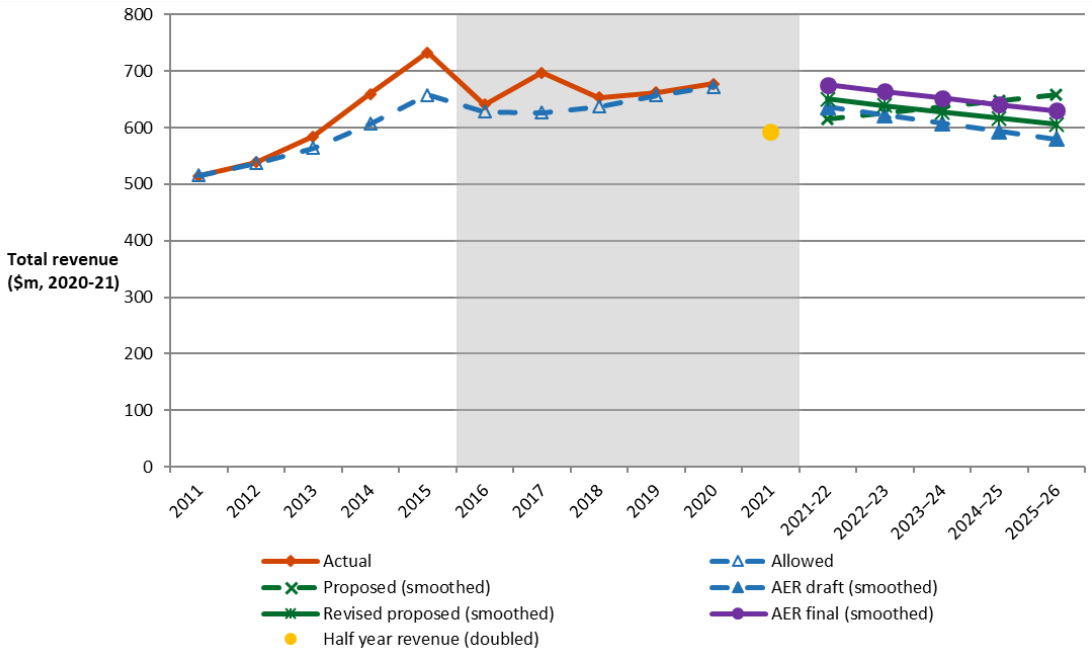
8 We discuss alternative control services in Attachment 16 to this final decision.

9 Our distribution determination for AusNet Services includes an approved negotiating framework and negotiated distribution service criteria, as required by the NER. Because AusNet Services has not included any negotiated services in its proposal, these elements of our determination will be inactive for the 2021–26 regulatory control period.

Figure 1 Revenue over time ($ million, 2020–21)



Source: AER analysis.

Figure 2 highlights the key drivers of the change in AusNet Services' allowed revenue from the 2016–20 regulatory control period compared to what we expect in the 2021–26 regulatory control period. It illustrates that the largest driver of change is the return of capital building block which increases revenues by $305.1 million in the 2021–26 regulatory control period compared to the 2016–20 period. Because AusNet Services added new equipment to its network over the last five years, its regulatory asset base (RAB) is increasing and so has its depreciation. AusNet Services' increase in depreciation is also affected by lower expected inflation over the 2021–26 regulatory control period and also the accelerated depreciation of certain assets.[10] The return on capital is the next most significant driver. The nominal rate of return has decreased from around 6.31 per cent in the 2016–20 regulatory control period to 4.83 per cent for the 2021–26 period. As a result, the total cost of capital had reduced by $237.1 million.[11] In 2019, we reviewed how we calculate the cost of corporate tax and made changes to our approach to align with the latest rulings of the Australian Tax Office. This means we expect the cost of corporate tax for AusNet Services will be lower than it was in the past. As a result, Figure 2 also shows a decrease in the cost of corporate tax building block of $148.3 million.[12] Revenue adjustments that are largely related to our Capital expenditure sharing scheme (CESS) and Efficiency benefit sharing scheme (EBSS) are also a significant driver of revenues and increases revenues by $174.8 million compared to the 2016–20 period. Forecast opex has reduced by $49.0 million compared to the 2016–20 regulatory control period.[13]

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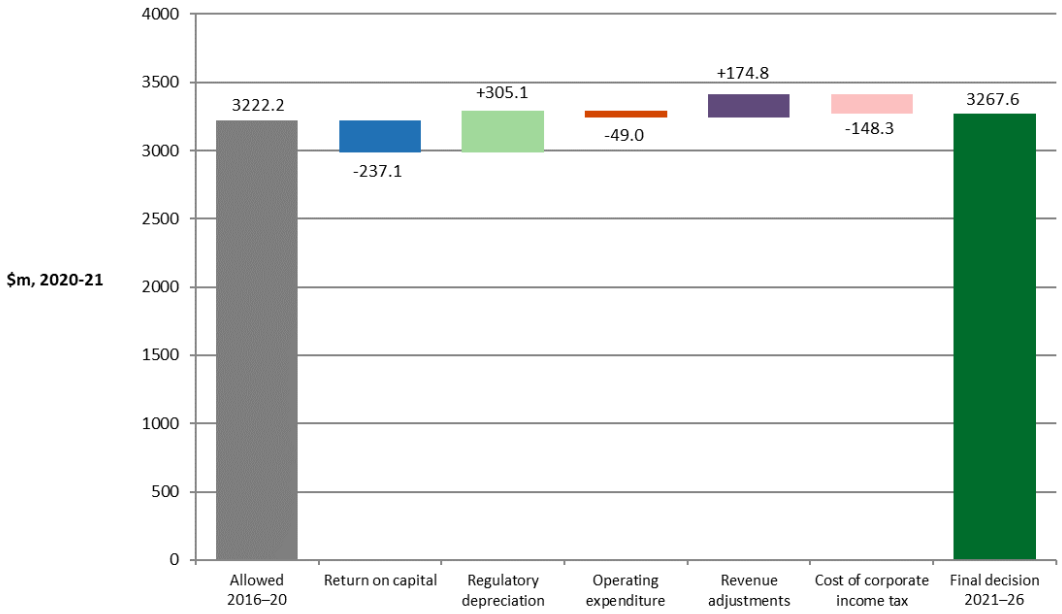
10 Please see section 2.3 for further details.

11 The rate of return is a nominal rate of return unless stated otherwise. The real rate of return has decreased by a similar amount. Please see section 2.2 for further details.

12 Please see section 2.6 for further details.

13 Please see section 2.5 for further details. This comparison is based on converting 2016–20 forecast opex for inflation to 2020–21 dollar terms using lagged CPI.

Figure 2 Change in revenue from 2016–20 to 2021–26 ($ million, 2020–21)

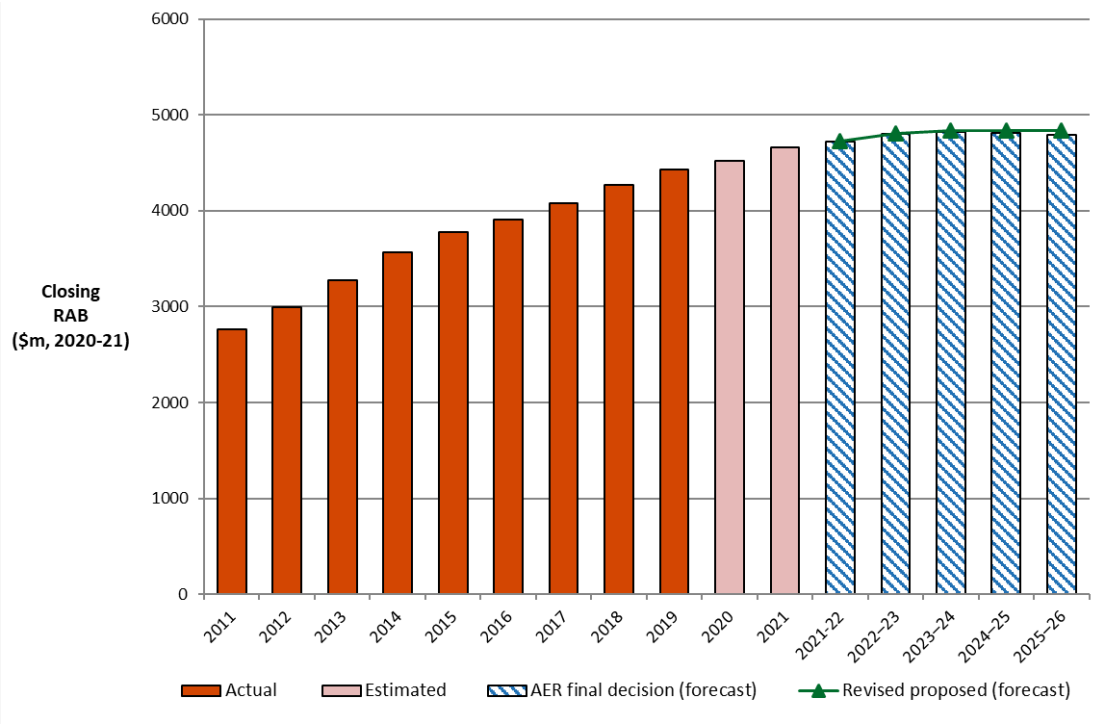


Source: AER analysis.

Figure 3 compares our final decision forecast RAB to AusNet Services' revised proposed and actual RAB. AusNet Services proposed to reduce its capex going forward which would have led to its RAB being stabilised. We reviewed this proposal carefully and have mostly accepted its forecast spending subject to a few reductions. AusNet Services' RAB is forecast to increase by around 2.8 per cent in real terms over the 2021–26 regulatory control period. In the previous 2016–20 regulatory control period, its RAB increased by 19.7 per cent in real terms.[14]

[14] Please see section 2.1 for further details.

Figure 3 Value of AusNet Services' RAB over time ($ million, 2020–21)



Source: AER analysis.

1.2 Differences between our final decision and revised proposal

The total revenue we are allowing in our final decision is $3470.5 million ($ nominal) for the 2021–26 regulatory control period. This is $103.4 million or 3.1 per cent higher than AusNet Services' revised proposal of $3367.1 million.

We have largely accepted AusNet Services' revenue proposal and the difference is due to our updating of the proposed building block amounts using more recent information.

The biggest contributor to the difference between our final decision revenue and AusNet Services' revised proposal is regulatory depreciation. Our estimate of the regulatory depreciation of $850.4 million is $81.6 million ($ nominal) or 10.6 per cent higher than AusNet Services' revised proposal estimate of $768.7 million ($ nominal). The main driver of this difference is the lower expected inflation which resulted from our inflation review. Our latest version of the Post-tax revenue model (PTRM) (version 5) released in April 2021 amended the way we estimate inflation, in order to improve our estimation in periods of economic instability or sustained periods of low or high inflation.[15] Our final decision estimates expected inflation of 2.00 per cent, which is lower than AusNet Services' estimate of expected inflation of 2.37 per cent.

We determine the return on capital of $1103.2 million ($ nominal), is $36.5 million or 3.4 per cent greater than the $1066.6 million in AusNet Services' revised proposal.

[15] AER, *Final position paper - Regulatory treatment of inflation*, December 2020, p. 6.

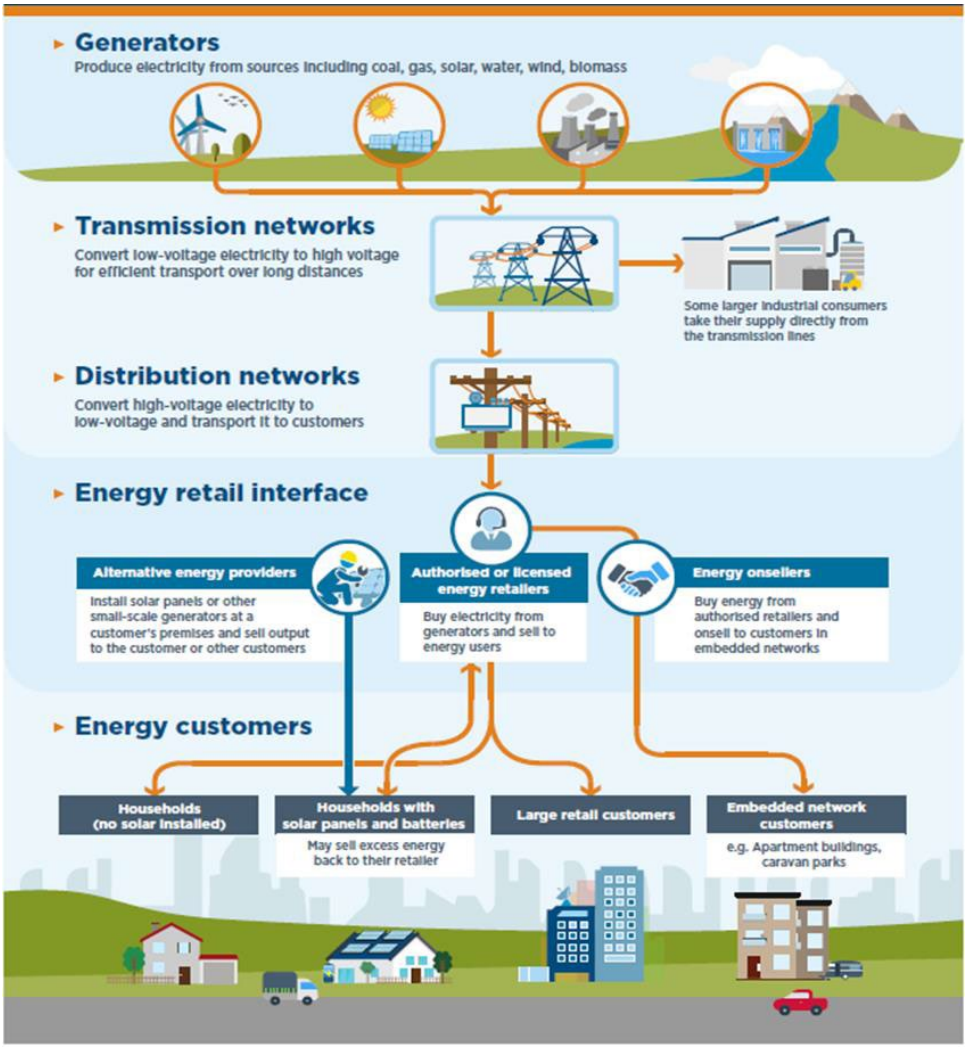
This is driven by our estimate of AusNet Services' nominal return of equity of 5.12 per cent, which is greater than the estimate of 4.59% in AusNet Services' revised proposal.

Based on evidence before us, we are not satisfied that AusNet Services' revised proposed forecast capex of $1432.9 million ($2020–21) reasonably reflects prudent and efficient costs. Our substitute capex forecast is $48.8 million ($2020–21) or 3.4 per cent lower, than the revised proposal. This leads to a lower forecast RAB than AusNet Services' revised proposal.

1.3 Expected impact of our final decision on electricity bills

AusNet Services' distribution network SCS charges make up around 34 per cent of the total residential bill and 39 per cent of the total small business retail electricity bill. Our decision also covers charges for revenue-capped metering services (that form part of ACS) and these costs are included in this estimated bill impact analysis. Other components of the electricity bill include wholesale electricity costs, retail costs and environmental policy costs. Figure 4 illustrates the different components of the electricity supply chain. Each of these costs contributes to the retail prices charged to customers by their chosen electricity retailer.

Figure 4 Electricity supply chain



Source: AER, *State of the Energy Market*, December 2018, p. 28.

For this final decision, we have estimated some indicative average distribution price impacts flowing from our allowed revenue determination. These prices are indicative and might vary with changes in demand.

Table 1 shows the estimated average annual impact of our final decision for the 2021–26 regulatory control period on electricity bills for residential and small business customers.

We estimate the expected impact on bills by varying the distribution charges in line with our 2021–26 final decision, while holding all other components constant. This approach isolates the effect of our final decision on distribution network tariffs from other parts of the bill. However, this does not mean that other components will remain unchanged across the regulatory control period.[16]

Under the final decision we estimate that compared to 2020 charges, the distribution network and metering charges ($ nominal) in AusNet Services' area:

- for an average residential consumer would:
    - increase by $27 (1.6 per cent) in the first year of the 2021–26 regulatory control period
    - increase on average by $4 (0.2 per cent) for each of the remaining four years of the 2021–26 regulatory control period.
- for an average small business consumer would:
    - increase by $95 (1.2 per cent) in the first year of the 2021–26 regulatory control period
    - increase on average by $21 (0.3 per cent) for each of the remaining four years of the 2021–26 regulatory control period.

[16] It also assumes that actual energy consumption will equal the forecast adopted in our final decision. Since AusNet Services operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2021–26 regulatory control period.

Table 1 Estimated contribution to annual electricity bills for the 2021–26 regulatory control period ($ nominal)

	2020	2021–22	2022–23	2023–24	2024–25	2025–26
AER Final decision						
Residential annual bill	1666[a]	1693	1698	1702	1706	1710
Annual change (per cent)[c]		27 (1.6%)	5 (0.3%)	4 (0.3%)	4 (0.2%)	4 (0.2%)
Standard control services		15	5	4	3	3
Metering		12	0	0	0	0
Small business annual bill	7945[b]	8040	8066	8087	8106	8124
Annual change (per cent)[c]		95 (1.2%)	26 (0.3%)	21 (0.3%)	19 (0.2%)	18 (0.2%)
Standard control services		83	26	21	19	17
Metering		12	0	0	0	0
AusNet Services revised proposal						
Residential annual bill	1666[a]	1670	1677	1683	1688	1693
Annual change (per cent)[c]		4 (0.2%)	7 (0.4%)	6 (0.3%)	6 (0.3%)	5 (0.3%)
Standard control services		–6	6	6	5	5
Metering		10	0	0	0	0
Small business annual bill	7945[b]	7922	7957	7988	8018	8046
Annual change (per cent)[c]		–23 (–0.3%)	35 (0.4%)	31 (0.4%)	29 (0.4%)	28 (0.3%)
Standard control services		–33	35	31	29	28
Metering		10	0	0	0	0

Source: AER analysis; Essential Services Commission, *Victorian Default Offer to apply from 1 January 2020 – Final decision*, 18 November 2019, p. 76.

(a) Annual bill for 2020 is sourced from Essential Services Commission, *Victorian Default Offer to apply from 1 January 2020 – Final decision* and reflects the average consumption of 4000 kWh for residential customers in Victoria. This is then indexed by CPI for the half year period from 1 January 2021 to 30 June 2021 to allow comparison of the bill impact from 1 July 2021 onwards.

(b) Annual bill for 2020 is sourced from Essential Services Commission, *Victorian Default Offer to apply from 1 January 2020 – Final decision* and reflects the average consumption of 20000 kWh for small business customers in Victoria. This is then indexed by CPI for the half year period from 1 January 2021 to 30 June 2021 to allow comparison of the bill impact from 1 July 2021 onwards.

(c) Annual change amounts and percentages are indicative. They are derived by varying the distribution component of the 2020 bill amounts in proportion to yearly expected revenue divided by forecast energy as provided by AusNet Services. Actual bill impacts will vary depending on electricity consumption and tariff class.

AusNet Services used a revenue per customer approach to measure bill impacts, whereas our approach is different, leading to some differences in the forecast impacts. The revenue per customer approach uses the change of revenue divided by customer numbers. Our approach uses the change of revenue divided by energy consumption. The concepts are closely related as forecast increases in customer numbers will also

be reflected in greater forecast energy consumption. Forecast energy consumption, however, can also change due to any changes in the average level of energy each customers is forecast to consume. In this regard, using energy consumption is seen as a way to capture more potential sources of bill changes from one year to the next. This matter is discussed further in attachment 1.

Our calculated bill impact assessment for AusNet Services shows a $44 increase from 2020 to 2025–26. However, our similar bill impact assessments for each of the other Victorian distributors show reductions. There are several factors for this difference including:

- AusNet Services' aggregate consumption profile is forecast to decrease over the 2021–26 regulatory control period, whereas for each of the other Victorian distributors it is forecast to increase. In our approach, a lower energy throughput results in a higher price path. AusNet Services' Annual Revenue Requirement (ARR) for the 2021–26 regulatory control period reflects a 1.4 per cent real increase relative to the ARR for the 2016–20 regulatory control period whereas for each of the other Victorian distributors, there is a period to period real reduction. Figure 2 shows the relative change to each revenue building block between the 2016–20 and 2021–26 regulatory periods. On the other hand, AusNet Services' RAB growth over the 2016–21 period of 23.3 per cent (Figure 3) is the second highest among the Victorian distributors and this is a factor in AusNet Services having a period-to-period reduction in return on capital which is (in percentage terms) the second-lowest among the Victorian distributors. This relatively high 2016–21 RAB growth along with a large amount of accelerated depreciation in the 2021–26 regulatory control period also contributes to AusNet Services having the highest period-to-period increase (in percentage terms) to regulatory depreciation among the Victorian distributors. While higher depreciation increases revenue in the period in which it occurs, all things being equal it reduces the forecast RAB which leads to a lower return on capital (and therefore revenue) in future periods.
- AusNet Services' forecast (revenue-capped) metering services per customer in 2025–26 are higher than those in 2020 whereas for each of the other Victorian distributors, they are lower.

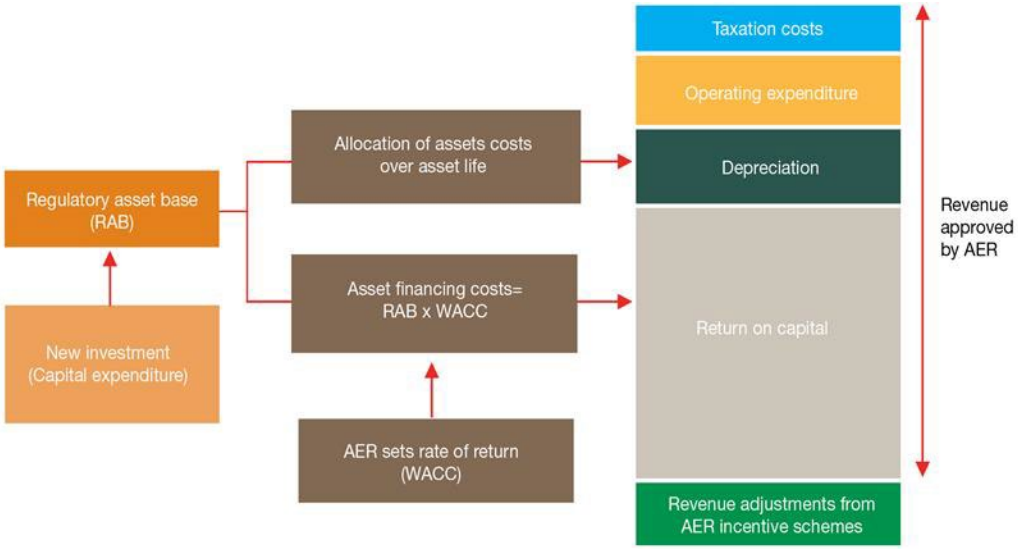
In our price path calculation, for the 2020 base year revenue, we use the total allowed revenue (TAR) and adjust for consumer price index (CPI). AusNet Services' 2020 TAR includes a B factor reduction to true-up recent over-recovery of revenue. This B factor reduction for AusNet Services is the largest among the Victorian distributors. Similarly, Jemena and Powercor also each include a (smaller) B factor reduction to 2020 revenue while conversely CitiPower and United Energy each include a B factor addition. AusNet Services' relatively lower base (2020) revenue therefore accentuates the bill increase arising from our decision for the 2021–26 regulatory control period.

2 Key components of our final decision on revenue

The total revenue AusNet Services proposed reflects its forecast of the efficient cost of providing its distribution network services over the 2021–26 regulatory control period. AusNet Services' proposal, and our assessment of it under the National Electricity Law (NEL) and NER, are based on a 'building block' approach to determine a total revenue allowance which looks at six cost components:

- a return on the RAB (or return on capital, to compensate investors for the opportunity cost of funds invested in this business) (section 2.2)
- depreciation of the RAB (or return of capital, to return the initial investment to investors over time) (section 2.3)
- capex — the capital expenditure incurred in the provision of network services — mostly relates to assets with long lives, the cost of which are recovered over several regulatory control periods. The forecast capex approved in our decisions directly affects the projected size of the RAB and therefore the revenue generated from the return on capital and depreciation building blocks (section 2.4)
- forecast opex—the operating, maintenance and other non-capital expenses incurred in the provision of network services (section 2.5)
- the estimated cost of corporate income tax (section 2.6)
- revenue adjustments, including revenue increments or decrements resulting from the application of various incentive schemes (section 2.7).

Figure 5 The building block model to forecast network revenue



Source: AER, *State of the Energy Market*, December 2018, p.138.

We use an incentive approach where, once regulated revenues are set for a five year period, networks who keep actual costs below the regulatory forecast of costs retain part of the benefit. This incentive framework is a foundation of the regulatory framework, and is consistent with the National Electricity Objective (NEO). Service providers have an incentive to become more efficient over time, as they retain part of

the financial benefit from improved efficiency. Consumers also benefit when efficient costs are revealed and a lower cost benchmark is set in subsequent regulatory periods.

Our final decision on AusNet Services' distribution revenues for the 2021–26 regulatory control period is set out in Table 2

Table 2 AER's final decision on AusNet Services' revenues for the 2021–26 regulatory control period ($ million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Return on capital	225.1	223.9	222.7	218.7	212.8	1103.2
Regulatory depreciation	184.9	163.2	163.0	168.5	170.8	850.4
Operating expenditure	244.9	253.2	262.2	272.1	283.4	1315.8
Revenue adjustments	84.6	53.9	32.8	12.4	10.2	193.9
Cost of corporate income tax	0.0	0.0	0.0	0.0	0.0	0.0
Annual revenue requirement (unsmoothed)	739.5	694.3	680.7	671.7	677.1	3463.3
Annual expected revenue (smoothed)	**690.8**	**692.4**	**694.1**	**695.7**	**697.4**	**3470.5**
X factor[d]	n/a[e]	1.73%	1.73%	1.73%	1.73%	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).

(b) Includes debt raising costs.

(c) Includes revenue adjustments from the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS) and the demand management innovation allowance mechanism (DMIAM).

(d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.

(e) AusNet Services is not required to apply an X factor for 2021–22 because we set the 2021–22 expected revenue in this decision. The expected revenue for 2021–22 is equal to the approved total annual revenue for 2020 in real terms, or 2.0 per cent higher in nominal terms after taking into account the escalation by half year Consumer Price Index (CPI) to allow comparison of the revenue from 1 July 2021 onwards.

2.1 Regulatory asset base

The RAB is the value of assets used by AusNet Services to provide regulated distribution services. The value of the RAB substantially impacts AusNet Services' revenue requirement, and the price consumers ultimately pay. This makes it a key issue for many stakeholders. Other things being equal, a higher RAB would increase both the return on capital and depreciation (return of capital) components of the revenue determination.

As part of our decision on AusNet Services' revenue for 2021–26, we make a decision on AusNet Services' opening RAB as at 1 July 2021. We use the RAB at the start of

each regulatory year to determine the return of capital (regulatory depreciation) and return on capital building block.

Our final decision is to determine an opening RAB value of $4657.4 million ($ nominal) as at 1 July 2021 for AusNet Services. This amount is $1.0 million (or less than 0.1 per cent) higher than AusNet Services' revised proposed opening RAB of $4656.5 million ($ nominal) as at 1 July 2021.[17] While we largely accept the proposed methodology for calculating the opening RAB, in AusNet Services' roll forward model (RFM) we have amended inputs for the six month period of 1 January to 30 June 2021 (the six month 2021 period) for forecast depreciation, the nominal rate of return and equity raising costs.

To determine the opening RAB as at 1 July 2021, we have rolled forward the RAB over the 2016–20 regulatory control period and a further roll forward for the six month 2021 period[18] to arrive at a closing RAB value at 30 June 2021 in accordance with our RFM. This roll forward includes an adjustment at the end of the 2016–20 regulatory control period to account for the difference between actual 2015 capex and the estimate approved in the 2016–20 determination.[19] All other end of period adjustments are applied at 30 June 2021 to establish the opening RAB value at 1 July 2021.[20]

Table 3 sets out the roll forward of the RAB to the end of the 2016–21 period.

Table 3 AER's final decision on AusNet Services' RAB for 2016–21 period ($ million, nominal)

	2016	2017	2018	2019	2020[a]	2021[b]
Opening RAB	3442.1	3610.5	3809.4	4067.6	4308.1	4467.4
Capital expenditure[c]	298.7	332.6	367.3	349.0	348.5	200.1
Inflation indexation on opening RAB	52.0	36.9	73.7	84.5	68.6	54.5
Less: straight-line depreciation[d]	182.3	170.6	182.8	193.0	208.2	99.3
Interim closing RAB	3610.5	3809.4	4067.6	4308.1	4517.0	4622.7
Difference between estimated and actual capex in 2015					–38.1	
Return on difference for 2015 capex					–11.6	

17 AusNet Services, *EDPR 2022–26 Revised Regulatory Proposal*, December 2020, pp. 100–101.

18 The additional roll forward for six months is due to the decision by the Victorian government to change the timing of the annual Victorian electricity network price changes to financial year basis from calendar year basis. This change means the current regulatory control period of 2016–20 is extended by six months and the next regulatory control period will commence on 1 July 2021.

19 The adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2016–20 determination.

20 These end of period adjustments are applied at the end of the final year of the roll forward period which in this case is 30 June 2021. For AusNet Services this includes adjustment for capitalised leases, and reallocation for accelerated depreciation purposes associated with SCADA/Network and rapid earth fault current limiter (REFCL) assets.

	2016	2017	2018	2019	2020[a]	2021[b]
Closing RAB as at 31 December 2020					4467.4	
Final year asset adjustment[e]						34.8
Opening RAB as at 1 July 2021						**4657.4**

Source: AER analysis.

(a) Based on estimated capex provided by AusNet Services. We will true-up the RAB for actual capex at the next reset.

(b) The six month 2021 period of 1 January to 30 June 2021. Based on estimated capex provided by AusNet Services. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and true-up the RAB for actual capex at the next reset.

(c) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.

(d) Adjusted for actual CPI. Based on forecast capex.

(e) For RAB roll-in of capitalised property leases.

Note: Summation of entries may not equal totals due to rounding.

For this final decision, we determine a forecast closing RAB value at 30 June 2026 of $5288.1 million ($ nominal) for AusNet Services. This is $145.6 million (or 2.7 per cent) lower than AusNet Services' revised proposal of $5433.6 million ($ nominal). Our final decision on the forecast closing RAB reflects the amended opening RAB as at 1 July 2021, and our final decisions on the expected inflation rate (attachment 3), forecast depreciation (attachment 4) and forecast capex (attachment 5).[21] Table 4 sets out our final decision on the forecast RAB values for AusNet Services over the 2021–26 regulatory control period.

Table 4 AER's final decision on AusNet Services' RAB for the 2021–26 regulatory control period ($ million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26
Opening RAB	4657.4	4818.5	4992.5	5114.7	5202.4
Capital expenditure[a]	346.0	337.2	285.2	256.2	256.4
Inflation indexation on opening RAB	93.1	96.3	99.8	102.3	104.0
Less: straight-line depreciation	278.0	259.6	262.8	270.7	274.8
Closing RAB	**4818.5**	**4992.5**	**5114.7**	**5202.4**	**5288.1**

Source: AER analysis.

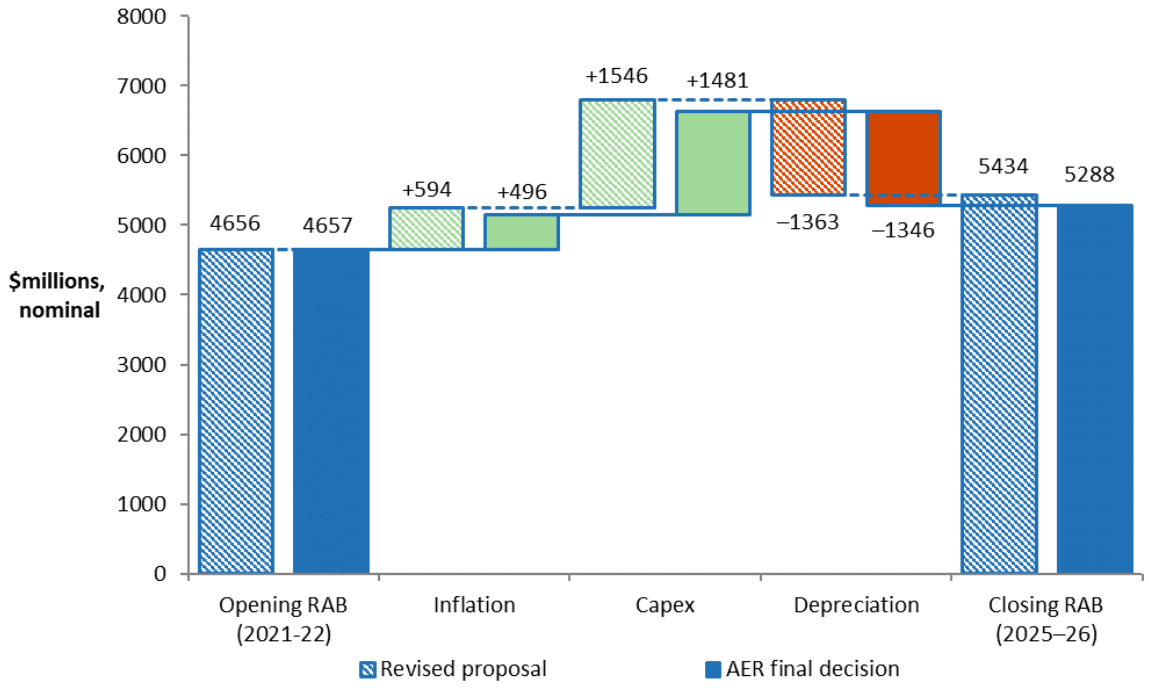
[21] Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2021–26 regulatory control period (section 2.2 of the Overview).

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the post-tax revenue model (PTRM), the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are consistent with the capex incentive objective.[22] Further, this approach is consistent with our draft decision, AusNet Services' revised proposal and our *Framework and approach*.[23]

Figure 6 shows the key drivers of the change in AusNet Services' RAB over the 2021–26 regulatory control period for this final decision. Overall, the closing RAB at the end of the 2021–26 regulatory control period is forecast to be 13.5 per cent higher than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB by 31.8 per cent, while expected inflation increases it by 10.6 per cent. Forecast depreciation, on the other hand, reduces the RAB by 28.9 per cent.

Figure 6 AusNet Services' actual, revised proposed and AER final decision RAB ($ nominal)



Source: AER analysis.

[22] Our ex post capex measures are set out in the capex incentive guideline, AER, *Capital expenditure incentive guideline for electricity network service providers,* November 2013, pp. 13–19 and 20–21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

[23] AER, *Draft decision: AusNet Services distribution determination 2021 to 2026, Attachment 2 – Regulatory Asset Base*, September 2020, p. 20; AusNet Services, *EDPR 2022–26 Revised Regulatory Proposal*, 3 December 2020, pp. 149–151; AER, *Final framework and approach for AusNet Services, CitiPower, Jemena, Powercor and United Energy – Regulatory control period commencing 1 January 2021,* January 2019, pp. 83–85.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Further detail on our final decision regarding the RAB is set out in attachment 2.

2.2 Rate of return and value of imputation credits

The return each business is to receive on its RAB (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the RAB. We estimate the rate of return by combining the returns of the two sources of funds for investment: equity and debt.

The allowed rate of return provides the business with a return on capital to service the interest on its loans and give a return on equity to investors. An accurate estimate of the rate of return is necessary to promote efficient prices in the long-term interests of consumers.

We are required by the NEL to apply a rate of return instrument—the current 2018 Rate of Return Instrument (2018 Instrument)—to estimate an allowed rate of return.[24]

The Victorian Government moved the Victorian distributors from a calendar year regulatory control period to a financial year regulatory control period. [25] This entailed a six month extension to the current regulatory control period (2016–20) through to June 2021, then a five year regulatory control period starting on 1 July 2021.[26] Our 2018 Instrument was applied from 1 January 2021—that is, to the six month extension period as well as the following five financial years which form the 2021–26 regulatory control period. Some amendments to the 2018 Instrument were needed to accommodate the additional six month period. The Victorian government enabled these amendments through the NELA Act.[27] Therefore, we apply modified 2018 Instruments to both periods.[28] [29]

Application of a modified 2018 Instrument in this final decision estimates an allowed rate of return of 4.83 per cent (nominal vanilla) for the five year regulatory control

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[24] NEL, Part 3, division 1B. AER, *Rate of return instrument*, December 2018, available at https://www.aer.gov.au/networks-pipelines/guidelinesschemes-models-reviews/rate-of-return-guideline-2018/final-decision

[25] *National Energy Legislation Amendment Act 2020 (Vic)*. Available at: https://www.legislation.vic.gov.au/as-made/acts/national-energy-legislation-amendment-act-2020

[26] The six month extension period was also labelled as the 'mini-year' when we consulted on the modifications to the 2018 Rate of Return Instrument.

[27] *National Energy Legislation Amendment Act 2020*.

[28] *National Energy Legislation Amendment Act 2020*.

[29] For the six month extension period instrument see: AER, *Modified rate of return instrument for the Victorian electricity distribution networks during the extension period of 1 January 2021 to 30 June 2021*, 27 October 2020; For the instrument to apply to the 2021–26 regulatory control period, see the Order in Council made on 27 October 2020 under section 16VE of the NEVA (*Attachment A - Modified rate of return instrument for the regulatory control period commencing on 1 July 2021 for the Victorian DNSPs*).

period commencing 1 July 2021. We note AusNet Services' proposal and revised proposal also applied these modifications to the 2018 Instrument.[30]

Our calculated rate of return (in Table 5) will apply to the first year of the 2021–26 regulatory control period. A different rate of return will apply for the remaining regulatory years of the period. This is because we will update the return on debt component of the rate of return each year in accordance with a modified 2018 Instrument, which uses a 10-year trailing average portfolio return on debt that is rolled-forward each year.

Table 5 AER's final decision on AusNet Services' rate of return (nominal)

	AER draft decision (2021–26)	AusNet Services' revised proposal (2021–26)	AER final decision (2021–26)	Allowed return over regulatory control period
Nominal risk free rate	0.93%[a]	0.93%	1.46%[c]	
Market risk premium	6.1%	6.1%	6.1%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post–tax)	4.59%	4.59%	5.12%	Constant (%)
Return on debt (nominal pre–tax)	4.66%[b]	4.66%	4.64%[d]	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	4.63%	4.63%	4.83%	Updated annually for return on debt
Expected inflation	2.37%	2.37%	2.00%	Constant (%)

Source: AER analysis; AusNet Services, *Electricity distribution price review 2022-26, Revised regulatory proposal*, December 2020, pp. 124–125.

[a,b] Calculated using a placeholder averaging period.

[c,] Calculated using an averaging period of 18 January 2021 to 31 March 2021.

[d] Final decision return on debt is calculated using the proposed and accepted debt averaging period.

Our final decision is also to accept AusNet Services' proposed risk free rate averaging period[31] and debt averaging periods because they comply with conditions in a modified 2018 Instrument.[32] These were submitted with its initial regulatory proposal and we specify the debt averaging periods in confidential appendix A to attachment 3.

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30 AusNet Services, *Electricity Distribution Price Review 2022–26 Part III*, January 2020, pp. 212-214; AusNet Services, *Electricity distribution price review 2022–26, Revised regulatory proposal*, December 2020, pp. 124–125.

31 This is also known as the return on equity averaging period.

32 For the financial year regulatory control period instrument, see the Order in Council made on 27 October 2020 under section 16VE of the NEVA (*Attachment A - Modified rate of return instrument for the regulatory control period commencing on 1 July 2021 for the Victorian DNSPs*).; see also AER, *Final decision, AusNet Services distribution determination 2021 to 2026, Attachment 3—Rate of return confidential appendix A: Equity and debt averaging periods*, April 2021

Debt and equity raising costs

In addition to providing for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs. We include equity raising costs in the capex forecast because these costs are only incurred once and would be associated with funding the particular capital investments.

We note AusNet Services has proposed to use our approach to estimate equity raising costs.[33] We have updated our estimate for this regulatory control period based on the benchmark approach using updated inputs. This results in zero equity raising costs.

Our final decision is to accept the method used in AusNet Services' revised proposal which uses an annual rate of 7.93 basis points per annum.[34] We have considered this annual rate and found our alternative benchmark estimate (8.00 basis points) is similar to AusNet Services' proposal.

Imputation credits

Our final decision is to apply a gamma of 0.585 as provided in a modified 2018 Instrument.[35] AusNet Services' revised proposal has adopted a value of 0.585.[36]

Inflation

We estimate an expected inflation of 2.0 per cent based on the approach adopted in our final position paper from our 2020 inflation review.[37] [38] AusNet Services supported the new approach to estimating expected inflation.[39]

True up for six month extension period

We applied placeholder averaging periods in our final decision for the six month extension period of 1 January 2021 to 30 June 2021.[40] This was because of the unanticipated delay in the passing of the NELA Act, and to facilitate our pricing process – the nominated (and accepted) averaging periods would not have finished in time to

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33 AusNet Services, *Electricity distribution price review 2021–26, Revised regulatory proposal*, December 2020, p. 126.

34 AusNet Electricity Services Pty Ltd, *Electricity distribution price review 2022–26, Revised regulatory proposal*, December 2020, p. 126; AusNet Electricity Services Pty Ltd, *AusNet Services - Revised Regulatory Proposal - PTRM Model (2022-26) – March 2021,* March 2021.

35 For the modified application of the 2018 instrument to the regulatory control period 2021–26,, see the Order in Council made on 27 October 2020 under section 16VE of the NEVA (*Attachment A - Modified rate of return instrument for the regulatory control period commencing on 1 July 2021 for the Victorian DNSPs*).

36 AusNet Services, *Electricity distribution price review 2022-26, Revised regulatory proposal*, December 2020, p. 125.

37 AER, *Final position, Regulatory treatment of inflation*, December 2020.

38 See our latest version of the PTRM (version 5) released in April 2021; AER, *Final position, Regulatory treatment of inflation*, December 2020.

39 AusNet Services, *Electricity distribution price review 2022-26, Revised regulatory proposal*, December 2020, p. 127.

40 For example, see: AER, *Final decision AusNet Services six-month extension – variation decision*, October 2020, pp. 11–12.

allow practical estimation of the final rate of return (based on the accepted averaging periods).

We have calculated the updated rate of return for the extension period based on the nominated and accepted averaging periods, and in accordance with the modified six-month instrument and the Order in Council. We determine that the difference with the placeholder rate of return will be recovered through the C-factor as noted in our control mechanisms attachment.

2.3 Regulatory depreciation (return of capital)

Depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). AusNet Services invests capital in large assets to provide electricity network services to its consumers. The costs of these assets are recovered over the asset's useful life, which in many cases can be 50 or more years. This means only a small part of the cost of such assets are recovered from consumers upfront or in any year. The greater proportion is recovered over time through the depreciation allowance.

In deciding whether to approve the depreciation schedules submitted by AusNet Services, we make determinations on the indexation of the RAB and depreciation building blocks for AusNet Services' 2021–26 regulatory control period.[41] The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our final decision is to determine a regulatory depreciation amount of $850.4 million ($ nominal) for AusNet Services for the 2021–26 regulatory control period. This amount represents an increase of $81.6 million (or 10.6 per cent) to the $768.7 million ($ nominal) in AusNet Services' revised proposal.[42] It is $116.9 million (or 15.9 per cent) higher than the regulatory depreciation amount determined in the draft decision. This significant increase is driven by our review of lower expected inflation which resulted from our inflation review. This lower expected inflation (amongst other things) impacts the indexation component of the regulatory depreciation allowance.

In addition, in coming to this decision:

- We accept AusNet Services' revised proposed straight-line method to calculate the regulatory depreciation, which is consistent with our draft decision.
- We accept AusNet Services' revised proposal to continue with the year-by-year tracking approach to implement straight-line depreciation of existing assets, consistent with our draft decision.
- We accept AusNet Services' revised proposed asset classes and standard asset lives, which are consistent with our draft decision. We have amended the equity raising costs standard asset life consistent with our standard weighted average approach.

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41 NER, cll. 6.12.1, 6.4.3.

42 AusNet Services, *EDPR 2022–26 Revised Proposal – PTRM Model (2022–26),* updated 24 March 2021.

- We accept AusNet Services revised proposed approach to calculate the accelerated depreciation of intelligent electronic devices (IEDs) relays and remote terminal units (RTUs) as it is consistent with our draft decision.
- We accept AusNet Services' revised proposed accelerated depreciation of approximately $3.9 million of other assets, in particular high bushfire risk assets which have been, or are forecast to be, replaced as part of the safety programs approved in the REFCL contingent project applications. This is consistent with our draft decision.
- As discussed in attachment 2, we accept AusNet Services' revised proposed end of period adjustment for capitalised property leases which adopted our draft decision approach. This included an update to the remaining life to 8.3 years from 8.4 years.[43]

The difference between our final decision and the revised proposal regulatory depreciation allowance is largely due to the following determinations on related parts of our decision:

- expected inflation over the 2021–26 regulatory control period (attachment 3)
- forecast capex (attachment 5) including its effect on the projected RAB over the 2021–26 regulatory control period.[44]

Further detail on our final decision regarding depreciation is set out in attachment 4.

2.4 Capital expenditure

Capex refers to the investment in assets to provide network services. This investment mostly relates to assets with long lives and these costs are recovered over several regulatory periods. Capex is added to AusNet Services' RAB, which is used to determine the return on capital and return of capital (regulatory depreciation) building block allowances. All else being equal, higher forecast capex will lead to a higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our final decision is to not accept AusNet Services' revised proposal of $1432.9 million (excluding disposals) and substitute our final decision forecast of $1384.1 million.

Although we largely accepted AusNet Services' initial proposal which was 19 per cent below its current regulatory period capex, we adjusted for several COVID-19 related factors and in its revised proposal AusNet Services included additional capex for connections and REFCL that was not a part of its initial proposal or our draft decision assessment.

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[43] AusNet Services made this update to reflect actual 2019 capex, which became available after the draft decision.

[44] Capex enters the RAB net of forecast disposals and capital contributions. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Our final decision on the RAB (Attachment 2) also reflects our updates to the WACC for the 2021–26 regulatory control period.

Instead of undertaking a top down assessment of AusNet Services' revised proposal, we have focussed on the incremental changes from our draft decision. We have made the following changes to AusNet Services' revised proposal to arrive at our final decision capex substitute:

- Connections – We do not consider AusNet Services' forecast decrease in customer contributions as a result of a change in the weighted average cost of capital (WACC) is reasonable. We have worked with AusNet Services and identified that AusNet Services may apply its connections policy in a way that is not materially affected by the WACC. This approach is more in line with the intent of the regulatory framework. We have also updated our draft decision COVID-19 adjustment for connections to account for updated Housing Industry Association (HIA) data.
- REFCL – We have largely accepted AusNet Services' updated REFCL forecast. However, we consider one ongoing REFCL compliance project at Ringwood North can reasonably be deferred to beyond the forecast period.
- Allocation of metering costs between SCS and ACS – We are not satisfied by AusNet Services' information provided in support of reversing our allocation of some metering costs from SCS to ACS. We have maintained our draft decision allocations. This change only affects the way costs are recovered rather than overall revenue.

2.5 Operating expenditure

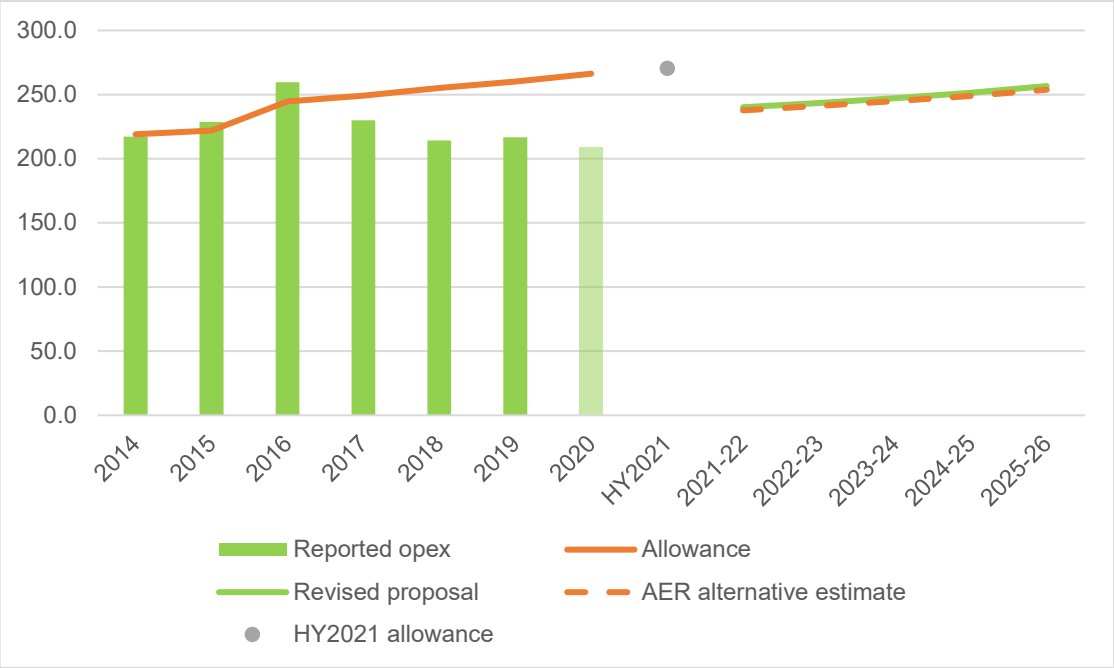
Opex is the forecast of operating, maintenance and other non-capital costs incurred in the provision of prescribed distribution standard control services. Forecast opex is one of the building blocks we use to determine AusNet Services' total regulated revenue requirement.

Our final decision is to accept AusNet Services' total opex forecast of $1238.7 million, including debt raising costs, for the 2021–26 regulatory control period. This is because our alternative estimate of $1226.8 million is not materially different than AusNet Services' updated revised proposal total opex forecast. Therefore we consider that AusNet Services' total opex forecast reasonably reflects the opex criteria.[45]

Figure 7 shows AusNet Services' opex forecast for the next five years, which is increasing by $109.2 million or 9.7 per cent relative to its actual (and estimated) opex in the current regulatory control period.

[45] NER, cl.6.5.6(c).

Figure 7 AusNet Services opex over time ($ million, 2020-21)



Source: AusNet Services, *2021–26 Regulatory proposal – Supporting document – Workbook 1 – Regulatory determination*, January 2020; AusNet Services, *2021–26 Regulatory proposal – Supporting document IR089 - insurance opex model,* 30 March 2021; AER, *Final Decision – AusNet Services distribution determination 2021–26 – Opex model,* April 2021; AER, *Draft Decision –AusNet Services distribution determination 2021–26 –Opex model,* September 2020; AER analysis.

Note: Operating expenditure for 2020 is an estimate.

We applied (as did AusNet Services) our top down base-step-trend approach to forecast increasing opex for the 2021–26 regulatory control period. This consists of:

- Starting with reported opex in 2018 as the opex base, which is lower than the forecast we set for the current regulatory control period, and we consider is reasonable as it is not materially inefficient.
- Escalating base opex to account for forecast changes in price growth, output growth and productivity over the next regulatory control period, which we consider is reasonable and consistent with our standard approach.
- Adding a number of step changes. The most significant step change proposed is for increasing insurance premium costs over the 2021–26 regulatory control period. Other increases include costs to meet new obligations such as those for REFCL testing and maintenance and five minute meter requirements. We have assessed these and consider they are prudent and efficient. These additions are a key driver for forecast opex being higher than historical levels.

We have set out the reasons for our final decision on opex in more detail in attachment 6. Our opex model, which calculates our alternative estimate of opex, is available on our website.

2.6 Corporate income tax

We determine an estimated cost of corporate income tax of zero for AusNet Services in the 2021–26 regulatory control period. This is consistent with our draft decision and AusNet Services' revised proposal.

We expect AusNet Services to incur a forecast tax loss over the 2021–26 regulatory control period.[46] We have determined that a $328.6 million in tax losses as at 30 June 2026 will be carried forward to the 2026–31 regulatory control period where it can be used to offset future tax liabilities. The forecast tax loss arises because of AusNet Services' forecast tax expenses will exceed its revenue for tax assessment purposes over the 2021–26 regulatory control period. This is mostly due to the implementation of our findings from the 2018 *Review of the regulatory tax approach*, where the introduction of immediate expensing of capex and diminishing value method of tax depreciation have resulted in a significant increase of forecast tax depreciation.

For this final decision, we have:

- reduced the forecast immediately expensed capex for tax purposes from $769.6 million to $768.2 million ($2020–21)[47]
- accepted the revised proposed opening tax asset base (TAB) value as at 1 July 2021 of $3682.7 million[48]
- accepted AusNet Services' revised proposal on the standard tax asset lives for all of its asset classes, consistent with our draft decision
- updated AusNet Services' remaining tax asset lives as at 1 July 2021 to reflect our minor amendments to the opening TAB value
- accepted AusNet Services' revised proposal to change the tax treatment for large embedded generators by directly charging for the tax cost associated with their connections
- amended the tax treatment for gifted assets to be consistent with a recent ruling by the Full Federal Court of Australia[49] made after the draft decision.

Further detail on our final decision on corporate income tax is set out in attachment 7.

2.7 Revenue adjustments

Our final decision on AusNet Services' total revenue also includes a number of adjustments:

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46 A forecast tax loss occurs when the forecast taxable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future regulatory control periods to offset future taxable income until the tax loss is fully exhausted.

47 All else equal, a lower immediately expensed capex amount will increase the cost of corporate income tax because it reduces the tax expense.

48 Subject to minor input updates for equity raising costs, weighted average cost of capital and depreciation for the 2021 half year. These changes are minor and do not have a material impact on the TAB (less than $0.01 million).

49 Federal Court of Australia, *Victoria Power Networks Pty Ltd v Commissioner of Taxation [2020] FCAFC 169*, 21 October 2020.

- **EBSS** – AusNet Services accrued EBSS carryovers totalling $109.3 million ($2020–21) from the application of the EBSS in the 2016–20 regulatory control period. This is the same carryover amount AusNet Services included in its revised proposal. The EBSS is intended to provide a continuous incentive for distributors to pursue efficiency improvements in opex, and provide for a fair sharing of these between distributors and network users. Consumers benefit from improved efficiencies through lower forecast opex in subsequent periods. Attachment 8 sets out our final decision on AusNet Services' EBSS.
- **CESS** – AusNet Services has accrued rewards under the CESS we applied in the current 2016–20 regulatory control period to incentivise AusNet Services to undertake efficient capex throughout the period. The CESS rewards efficiency gains and penalises efficiency losses, each measured by reference to the difference between forecast and actual capex. In the 2016–20 period, AusNet Services out-performed our capex forecast, and our final decision is to approve a CESS revenue increment amount of $73.8 million ($2020–21). This amount reflects updates to CPI, WACC and actual capex.
- **Demand management innovation allowance mechanism (DMIAM)** —Table 6 sets out the DMIAM allowance for AusNet Services for the 2021–26 regulatory control period, based on the final PTRM for AusNet Services. The DMIAM aims to encourage distribution businesses to find investments that are lower cost alternatives to investing in network solutions.

Table 6 AER's final decision on the DMIAM ($ million, 2020-21)

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
DMIAM	0.76	0.71	0.69	0.68	0.67	3.52

Source: AER analysis.

Section 4 sets out our draft decision on the incentive schemes that apply to AusNet Services over the next regulatory control period.

3 AusNet Services' consumer Engagement

A significant development in the preparation of proposals for the Victorian Electricity Distribution 2021–26 regulatory control period, has been the improvement in consumer engagement approaches undertaken by the distributors. Stakeholders have commented favourably on the observed improvement in consumer engagement across all Victorian distributors.[50] As a result of this advancement, we developed a framework for assessing the Victorian distributor's consumer engagement activities, which we published in our draft decision.[51]

The framework sought to provide increased transparency around our assessment of consumer engagement outcomes and how this has influenced our decisions on expenditure forecasts. It was developed, based on our observations on the quality of engagement, to represent a range of considerations we thought clearly demonstrated if consumers had been genuinely engaged during development of proposals.[52] The framework, in its current form, represents a high threshold a distributor would need to meet – among other things – should it be seeking to submit a proposal that is 'capable of acceptance'. Used in conjunction with our technical analysis, the framework allowed us to place weight on the outcomes of the engagement activities undertaken by each distributor to assist in providing an overall assessment of expenditure proposals. In response to a number of submissions[53], this final decision also provides further clarity on the use of the framework in our decision making process. Noting that while we take the quality of consumer engagement, and the extent to which proposals are influenced by consumer preferences into account, it does not displace our technical assessment under the NER. The assessment of consumer engagement under the framework can however, inform the depth of technical assessment required.

Stakeholder submissions on our draft decision supported the framework[54], as a tool in our kit, along with the further development of our approach to consumer engagement.[55] We also recognise there may be other elements of engagement which

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50 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp 6-42.; CCP17, *Submission on the Victorian Electricity Distribution Regulatory Proposal 2021–26*, June 2020, p.10.; Department of Environment, Land, Water and Planning, *Victorian Government submission on the electricity distribution price review 2021–26*, May 2020, p. 2;, EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 2.; ECA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 6.;

51 See Table 7: AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview - September 2020*, p. 45.

52 AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview - September 2020*, p. 44.

53 EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 7.; VCO, *Submission on the Victorian Electricity Distribution Regulatory Proposal 2021–26*, June 2020, p. 12; VCO, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 12, 14.

54 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 6-42; EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 2, 3-4.; ECA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 8.; VCO, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 12

55 Op cit.

are also worthy of inclusion as our assessment approach develops.[56] As a result, we plan to take any further development of the framework with full consultation with stakeholders, outside of the Victorian reset process. However, to maintain consistency of our assessment of the Victorian distributor's consumer engagement in this final decision, we have continued with the approach outlined in our draft decision.

3.1 Clarifying the role of consumer engagement

Some stakeholders have expressed concern that an assessment of high quality consumer engagement may lead to a decreased level of technical assessment. In particular, the Energy Users Association of Australia (EUAA) and the Victorian Community Organisation submissions suggested that successful participation in a New Reg process could lead to a network business getting a 'rails run', with less detailed regulatory scrutiny.[57]

The NER outlines that we must have regard to consumer concerns, and be satisfied that expenditure forecasts we approve reasonably reflect prudent and efficient costs. One of the factors that we must have regard to is the extent to which the capex and opex forecasts address consumer concerns identified throughout distributors' engagement with its customers.[58] However, this must be balanced against other capex and opex factors, including that we must have regard to distributors' actual and expected capex and opex in preceding regulatory periods[59], and whether the forecasts are consistent with any relevant incentive schemes.[60] In undertaking our reviews, we apply a number of bottom-up and top-down assessment techniques. Our technical analysis makes use of a range of measures, none of which are used deterministically in isolation. The quality of a distributor's consumer engagement informs the nature of our technical assessment but does not displace it.

AusNet Services' consumer engagement, through its participation in the New Reg trial, informed our assessment and gave us more confidence in placing sufficient weight on our top-down technical assessment.

The EUAA submissions, while complementary of the framework overall, outlined several areas of concern regarding our stated position on New Reg,[61] in how we

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56 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 6-42; EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 3-4.; ECA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 9.; CitiPower, Powercor and United Energy, Revised Regulatory Proposal – 2021–26 - December 2020, p. 26.; VCO, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 12-13.

57 EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 1; VCO, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p 14.

58 NER, cl. 6.5.7(e)(5A) and 6.5.6(e)(5A).

59 NER, cl. 6.5.7(e)(5) and 6.5.6(e)(5).

60 NER, cl. 6.5.7(e)(8) and 6.5.6(e)(8).

61 EUAA, *Submission on the Victorian Electricity Distribution Regulatory Proposal 2021–26*, June 2020, pp. 2,6.; EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 1.

applied the framework and regarding the manner in which commercial and industrial (C&I) customers were engaged in the process.[62][63]

The Customer Forum did engage with EUAA at a number of points in the process.[64] In seeking to understand the perspectives of all AusNet Services customers through direct engagement, input from customer advocates, as well as customer research, the Customer Forum also engaged with the views of C&I customers.[65] Nevertheless, we understand that the EUAA would have liked more and deeper engagement with the Customer Forum after the initial negotiating positions were published. This feedback is noted and is an issue that the AER will consider in the New Reg evaluation and in its thinking about how networks engage with different customer cohorts under our consumer engagement evaluation framework.[66] .

3.2 An assessment of consumer engagement

In our assessment of consumer engagement in the development of proposals for the 2021–26 regulatory control period, we recognise that each distributor has approached consumer engagement differently. AusNet Services innovated by participating in the New Reg trial, the goal of which was to ensure consumers' preferences drive energy network regulatory proposals and outcomes.[67] The main feature of the New Reg trial was the Customer Forum, which was engaged to represent the interests of AusNet Services' customers in negotiating selected aspects of AusNet Services' regulatory proposal.[68] In coming to our draft decision, we found that negotiations with its Customer Forum led to significant positive outcomes for consumers. This resulted in a draft decision, which after our technical assessment, was to accept AusNet Services' expenditure forecasts subject to updates and some adjustments due to changed economic conditions.[69]

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62 EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 1

63 EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 6.

64 While the Customer Forum did not separately meet with the EUAA after AusNet Services released its draft proposal, the Customer Forum met with the EUAA to understand the issues facing large energy users and again, (with the Major Energy Users) to test their initial negotiating positions prior to this. The Customer Forum also tested their initial and final negotiating positions with AusNet Services' Customer Consultative Committee of which the EUAA was a member. Further, the EUAA also attended 5 deep workshops after the draft determination with AusNet and the Customer Forum as well as making a detailed submission on the draft regulatory proposal and the Customer Forum's interim engagement report.

65 The Customer Forum met with 36 business customers, including the direct meetings with Exxon Mobil Longford, Australian Sustainable Hardwood, a dairy processor, a cheese factory, and Energy Australia. Air Liquide, Alcoa, and Bluescope Steel attended deep dives with the Customer Forum present. The Customer Forum also met with the Victorian Employers' Chamber of Commerce and Industry, Business Council of Australia, Energy Consumers Australia, The Benalla Business Network, The Master Builders Association. The Customer Forum also considered the results of customer research and surveys including a 'business customer survey' ref: (Customer Forum, Final Engagement Report, Jan 2020, p. 79) stakeholder interviews that canvased large business and advocate views (ref: Stephanie Judd, Customer Research and Insights Advisor, AusNet Services, *Understanding The Electricity Related Needs And Wants Of Customers: A Stakeholder Perspectives (Full Paper),* 2018).

66 AusNet Services, *Early Engagement Plan EDPR 2021–25 Customer Forum*, 2017, pp. 8-9.

67 AER, ECA, ENA, *New Reg: Towards Consumer-Centric Energy Network Regulation Approach Paper*, March 2018.

68 AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview - September 2020*, p. 3.

69 AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview - September 2020*, p. 3.

As previously indicated, we have applied our framework, as a form of benchmarking for all engagement approaches, to the assessment of AusNet Services' customer engagement in the development of its revised proposal. In doing so we recognise that the timeframe between our draft decision and submission of the revised proposal presented a challenge for distributors to address all elements of the framework.

In response to the draft decision and in preparation of its revised regulatory proposal, AusNet Services recommenced engagement with its stakeholder groups, including: re-engaging the Customer Forum, conducting a stakeholder forum, and meetings with its Customer Consultative Committee. Once the revised regulatory proposal had been developed, briefings were offered to interested stakeholders.[70] AusNet Services stated that the purpose of the engagement was to brief stakeholders on the draft decision and seek feedback across a broad range of issues being considered for the revised regulatory proposal.[71]

AusNet Services' engagement sought feedback from a diverse group of stakeholders. The topics of discussion delved deeply into the effects of our draft decision on AusNet Services' ability to deliver the expenditure program it developed in conjunction with the Customer Forum.[72] In response to our draft decision, the Customer Forum produced a memorandum which detailed the range of engagement and other activities it participated in following the draft determination. The memo also notes the adjustments we made in our draft decision, but reaffirmed the Customer Forum's support for the positions it took in its final engagement report[73].[74] As a result, selected expenditure items we questioned in our draft decision, such as the ICT Cloud step change, were re-proposed in the revised proposal.[75]

We consider that AusNet Services was genuine in seeking feedback, and reflected stakeholder's interests in its revised proposal.[76] EUAA noted how well AusNet Services engaged with it and other commercial and industrial customers in the preparation of its revised proposal.[77] The Consumer Challenge Panel, sub-panel 17 (CCP17) submission considered that despite the limited time available, AusNet Services "has effectively informed key stakeholders of the changes incorporated in its revised regulatory proposal, and has provided some opportunity for feedback".[78] Importantly, we can see references throughout AusNet Services' revised regulatory proposal incorporating this stakeholder input. The CCP17 also "observed or saw documentation of instances where stakeholder feedback influenced the final proposal, i.e. development of forecast customer numbers, ICT Cloud Step Change, and reallocation

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70 CCP17*, Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 34.

71 AusNet Services, *Revised Regulatory Proposal, 2021–26,* December 2020, p.15.

72 In relation to the 'Breadth and depth' element of the framework; AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview - September 2020*, p.45.

73 AusNet Services' Customer Forum, Customer forum final engagement report, January 2020.

74 AusNet Services, *Revised Regulatory Proposal, 2021–26,* December 2020, *Appendix #A, Customer Forum Memo,* December 2020, pp.1-3.

75 AusNet Services, *Revised Regulatory Proposal, 2021–26,* December 2020, p.15.

76 This assessment is in relation to the 'Clearly evidenced impact' element in our framework; ; AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview - September 2020*, p.45.

77 EUAA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p .8.

78 CCP17*, Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 36.

of metering costs".[79] The CCP17 submission also reinforced the need for "a comprehensive Consumer and Stakeholder Engagement Plan spanning the full timeline of the regulatory reset process".[80]

In our assessment of the 'proof point', we found that from a top-down perspective, AusNet Services' revised total forecast capex appears to be reasonable, subject to adjustments for COVID-19. However, in its revised regulatory proposal, AusNet Services included revised forecast capex changes beyond the scope of the updates we requested in our draft decision, including significant changes to REFCLs and connections. The additional forecast capex sought for these projects was $67.3 million[81], and was not assessed in our draft decision against the capex criteria. As a result, in this decision we have maintained our top-down assessment made in the draft decision but also conducted a bottom-up assessment of the additional capex.

The decision to conduct a bottom-up assessment of the additional forecast capex is supported by submissions we received from stakeholders including Energy Consumers Australia (ECA) who considered there should be no additional capex without a review of the entire capex program.[82] ECA also recommended that we undertake a careful review of the Kalkallo costs,[83] and the CCP17 considered we should conduct an in-depth analysis of the forecast capex increases.[84]

We found that overall, AusNet Services' customer engagement was well received, with stakeholder preferences being reflected in the revised regulatory proposal. The distributor demonstrated breadth by engaging with a range of stakeholders and went into depth on the forecast expenditure affected by our draft decision. Despite the challenges presented by the limited time frame between the draft decision and submission of the revised regulatory proposal, AusNet Services' customer engagement met many of the proof points we set out in the framework. Further, we consider that AusNet Services' participation in the New Reg trial was at the collaborate end of consumer engagement on the IAP2 spectrum.[85]

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79 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 36.

80 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 36.

81 AusNet Services included an additional $15.5 million for additional REFCL compliance associated costs and $51.8 million for a decrease in capital contributions that were not assessed as part of our draft decision.

82 ECA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, Spencer & Co, *Report to ECA – a review of Victorian Electricity Distributors' revised proposals 2021–26*, January 2021, p.19

83 ECA, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, Spencer & Co, *Report to ECA – a review of Victorian Electricity Distributors' revised proposals 2021–26*, January 2021, p.11

84 CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp.88-89.

85 https://iap2.org.au/wpcontent/uploads/2020/01/2018_IAP2_Spectrum.pdf

4 Incentive schemes

Incentive schemes are a component of incentive based regulation and complement our approach to assessing efficient costs. These schemes provide important balancing incentives under the revenue determination we've discussed in section 2, to encourage AusNet Services to pursue expenditure efficiencies and demand side alternatives while maintaining the reliability and overall performance of its network.

The incentive schemes that might apply to an electricity distribution network as part of our decision are:

- the EBSS
- the CESS
- the service target performance incentive scheme (STPIS)
- the Customer Service Incentive Scheme (CSIS)
- the demand management incentive scheme (DMIS) and allowance (DMIAM)
- the f-factor scheme.

Once we make our decision on AusNet Services' revenue cap, it has an incentive to provide services at the lowest possible cost, because its returns are determined by its actual costs of providing services. Our incentive schemes encourage network businesses to make efficient decisions. They give network businesses an incentive to pursue efficiency improvements in opex and capex, and to share them with consumers. If networks reduce costs to below our forecast of efficient costs, the savings are shared with its consumers in future regulatory control periods through a lower opex allowance and a lower RAB.

We understand the strong concerns of stakeholders, that the CESS not only rewards efficiency gains but also over forecasting and deferral of capex. The current CESS guideline includes protections against material deferrals that have been triggered for some elements of Powercor's proposal.[86] AusNet Services included a deferral adjustment and we made no further adjustments. Protection against over forecasting of capex lies in the rigorous assessment of proposed capex. Our draft decision also noted that we will be conducting an incentive scheme review to examine these stakeholder concerns.

The DMIS and the DMIAM provide businesses an incentive to undertake efficient expenditure on non-network options relating to demand management research and development in demand management projects that have the potential to reduce long-term network costs. All five Victorian distributors accepted our draft decision to apply the DMIS and DMIAM. We acknowledge that the Local Government Response expressed its concern that the full DMIAM allowance has been approved for Jemena,

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[86] AER, *Final Decision, Powercor Distribution Determination 2021–26, Attachment 9 Capital Expenditure Sharing Scheme*, September 2020.

CitiPower and Powercor, without justification or evidence of the types of activities that will be undertaken. [87] While we acknowledge this concern, we consider that the DMIAM research and development works have the potential to deliver long-term savings to consumers. The scheme has an in-built control framework to ensure that only those expenditures that meet the tests prescribed by the scheme will be approved. Any unspent DMIAM allowance will be returned to the consumers.

Our final decision is to apply the DMIS and the DMIAM to AusNet Services for the 2021–26 regulatory control period, without any modification. Our draft decision reasons form part of this final decision.

The STPIS balances a distributor's incentive to reduce expenditure with the need to maintain or improve service quality. Our final decision is to apply our national STPIS version 2.0 (November 2018) to AusNet Services for the 2021–26 regulatory control period. We will not apply the guaranteed service level component to AusNet Services as the existing jurisdictional arrangements will continue to apply. We will not apply the STPIS telephone answering target and incentive rate to AusNet Services in the next regulatory control period because the distributor has opted to apply our CSIS. However, AusNet Services should continue to report on the telephone answering parameter in the next regulatory control period.

To accompany the STPIS we have established the CSIS to try and capture how well the distributor is meeting customer preferences. The intention is for this to replace the 0.5 per cent of revenue tied to the telephone answering parameter under the STPIS. The CSIS was one of the outcomes of the engagement between AusNet Services and its Customer Forum. It was developed in the context of initiatives to encourage AusNet Services to continue to monitor and improve customer experience over the regulatory control period. AusNet Services has proposed to apply the CSIS in the next regulatory control period.

Our final decision is that each of the EBSS, CESS, STPIS, CSIS, DMIS and DMIAM should apply to AusNet Services for the 2021–26 regulatory control period.

Our final decision also includes how the f-factor scheme is applied to AusNet Services in the 2021–26 regulatory control period. The f-factor scheme is prescribed by the Victorian Government's F-Factor Scheme Order 2016 to reduce the risk of fire starts by network assets.[88] The 2016 Order was amended by the F-factor Scheme Amendment Order 2020. We have made an f-factor scheme determination for AusNet Services under the F-Factor Scheme Order in respect of the 2021–26 regulatory control period, as detailed in attachment A of our draft decision. Our final decision is to make revenue adjustments for AusNet Services in accordance with the F-Factor Scheme Order by way of an annual adjustment through the "I-factor" component in the control mechanism, as specified in attachment 14 of the final decision.

We discuss our final decisions on each incentive scheme in attachments 8 to 12.

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[87] LGR, prepared by Victorian Greenhouse Alliance, *Submission to the AER Victorian Electricity Distribution Price Review (EDPR) 2021–26, Local Government Response to the AER's Draft Determination,* December 2020, p. 10.

[88] *Victoria Government Gazette, G 51*, 22 December 2016, p. 3239.

5 Tariff structure statement

AusNet Services' 2021–26 proposal includes the second iteration of its tariff structure statement (TSS). Its current TSS applies from 1 January 2016 to 30 June 2021.[89]

The requirement on distributors to prepare a TSS arises from significant reforms to the rules governing distribution network pricing. These reforms aim to:

- help distributors provide better price signals to retailers to reflect what it costs to use the network
- manage future expectations for retailers, distributors and consumers by providing guidance on distributors' tariff strategy
- help the transition to more cost reflecting pricing.

Distributors do not directly charge end customers. Rather, distributors charge retailers for the network services provided to end customers. Retailers can then decide how best to pass on these price signals to end customers.

A TSS applies to a distributor's tariffs for the duration of the regulatory control period. It describes a distributor's tariff classes and structures, the distributor's policies and procedures for assigning and reassigning customers to tariffs, the charging parameters for each tariff, and a description of the approach the distributor takes to setting tariffs in pricing proposals.[90] It is accompanied by an indicative pricing schedule.[91] A TSS provides consumers and retailers with certainty and transparency in relation to how and when network prices will change.

While an indicative pricing schedule must accompany the TSS, AusNet Services' tariffs for the entire 2021–26 regulatory control period are not set as part of this determination. Rather, tariffs for 2021–22 will be subject to a separate approval process that takes place in May 2021, after this final revenue determination in April 2021. Tariffs for the following four years will also be approved on an annual basis in May of each year.

Our final decision is to amend AusNet Services' TSS by:

- requiring stand-alone (grid scale) storage to face network price signals to guide their operation and contribute to the cost of operating and maintaining the electricity distribution networks they use
- specifying electric vehicle owners, once they are identified by the relevant network, will no longer have access to flat tariffs
- clarifying that retailers can request tariff reassignment from distributors to help optimise their portfolios while consumers retain control over their retail offer.

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89 The regulatory control period (1 January 2016 to 31 December 2020) was extended by six months. Refer to the Executive Summary above for an overview of changes to the regulatory control period.

90 NER, cl. 6.18.1A(a).

91 NER, cl. 6.18.1A(e).

These amendments complement the changes AusNet Services already made to align with our draft decision. These changes include:

- reassigning residential consumers on legacy time of use, flexibility and demand tariffs to the new time of use or demand equivalent
- aligning with other distributors to allow solar customers to opt-out to a flat rate tariff but introducing a discount which increases by 1 per cent each year relative to the flat rate to incentivise take up of a cost reflective tariff
- providing greater clarity on how its tariff strategy aligned with DER integration and demand management initiatives.

On large customer tariff choice, our final decision is to allow AusNet Services to:

- not offer large user tariff choice at this time given the tight timelines between our draft decision and its revised proposal, as well as its intention to trial new large customer tariffs during the 2021–26 regulatory period.

On energy storage, we consider batteries should contribute to recovery of network costs and should face network price signals to guide their operation. This will retain consistency with other National Electricity Market jurisdictions given the absence of new rules or policy direction between our draft and final decisions. If the asset falls into a particular tariff class, it should be assigned to the same network tariffs as other customers in that tariff class, whether owned by a distributor, its affiliate or a third party. We have amended AusNet Services' TSS to reflect this position. To the extent batteries are used for network support they will remain exempt from network tariffs.

We note the AEMC has foreshadowed its intention to consult with stakeholders on efficiently integrating distributed energy resources and that charging arrangements may be considered more generally in the context of the Energy Security Board reforms. The Victorian distributors have also committed to trialling new tariffs for energy storage over the 2021–26 regulatory period.

Attachment 19 of this final decision provides detailed reasons for our decision on AusNet Services' TSS.

6 Other price terms and conditions

In this section, we consider the other aspects of our determination. These may be described as the terms and conditions of our determination that cover how AusNet Services must set its prices. This includes the classification of services and the framework for AusNet Services' negotiated services.

6.1 Classification of services

Service classification determines the nature of economic regulation, if any, that is applicable to specific distribution services. Classification is important to customers as it determines which network services are included in basic electricity charges, the basis on which additional services are sold, and which services we will not regulate. Our decision reflects our assessment of a number of factors, including existing and potential competition to supply these services.

In its revised proposal, AusNet Services accepted our draft decision on the classification of the services it provides.[92] Our final decision is to retain the classification structure and the services list as published in our draft decision for AusNet Services.[93] The list of classified services AusNet Services will provide for 2021–26 is set out in attachment 13 to this decision.

6.2 Negotiating framework and criteria

In our draft decision, we approved AusNet Services' proposed distribution negotiating framework for the 2021–26 regulatory control period.[94] We did not receive any objections or submissions on our draft decision. Our final decision is to approve AusNet Services' negotiating framework. The distribution negotiating framework that will apply to AusNet Services for the period of this determination is set out in attachment A. We are also required to make a decision on the negotiated distribution service criteria (NDSC) for the distributor.[95] Our final decision is to retain the NDSC that we published for AusNet Services in September 2020[96] for the 2021–26 regulatory control period. The NDSC gives effect to the negotiated distribution services principles.[97]

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92 AusNet Services, *Revised Regulatory Proposal - 2021–26 - December 2020*, Appendix A: Service Classification Proposal.

93 AER, *Draft decision AusNet Services distribution determination 2021 to 2026*, Attachment 12 Classification of services, September 2020. The services list can be found in Attachment A

94 AER, Draft Decision, *AusNet Services distribution determination 2021 to 2026*, September 2020, Attachment 17, p, 17-4

95 NER, cl. 6.12.1(16).

96 AER, Draft Decision, *AusNet Services distribution determination 2021 to 2026*, September 2020, Attachment 17, p, 17-4

97 NER, cl. 6.7.1.

6.3 Connection policy

In our draft decision, we did not approve AusNet Services' proposed connection policy for the 2021–26 regulatory control period. We modified AusNet Services' connection policy nominated in its original proposal, to the extent necessary to enable it to be approved in accordance with the rules' requirements.

AusNet Services accepted the majority of the changes we made to its initially proposed connection policy. However, it did not accept the threshold level for what size a new connections needs to be to contribute the upstream cost in addition to the network extension cost set in the draft decision. AusNet Services also proposed:

- a new change to its original proposal to include the tax liability to the capital contribution for large embedded generator connections
- to classify large embedded generator connections as alternate control service.

We do not agree to:

- the proposed changes to the upstream charge threshold because is not consistent with our Connection Charge Guideline published under the NER
- the change in classification for connection of large embedded generator because this is inconsistent with the Framework and Approach.

We accept AusNet Services' proposed change to include tax liability to the capital contribution for large embedded generator connections, since such change has been substantially consulted on with the relevant stakeholders. We agree that such change will reduce the level of cross-subsidy by load consuming network users to large embedded generators.

The approved connection policy for AusNet Services' 2021–26 regulatory control period is appended to attachment 18 of our final decision.

7 The National Electricity Law and Rules

The NEL and NER provide the regulatory framework governing electricity distribution networks. Our work under this framework is guided by the NEO:[98]

> "…to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system."

The NEL requires us to make our decision in a manner that contributes, or is likely to contribute, to achieving the NEO.[99] The focus of the NEO is on promoting efficient investment in, and operation and use of, electricity services (rather than assets) in the long-term interests of consumers.[100] This is not delivered by any one of the NEO's factors in isolation, but rather by balancing them in reaching a regulatory decision.[101]

Electricity determinations are complex decisions. In most cases, the provisions of the NER do not point to a single answer, either for our decision as a whole or in respect of particular components. They require us to exercise our regulatory judgement. Where there are choices to be made among several plausible alternatives, we have selected what we are satisfied would result in an overall decision that is likely to contribute to the achievement of the NEO to the greatest degree.[102]

Our distribution determinations are predicated on a number of constituent decisions that we are required to make.[103] These are set out in Appendix A and the relevant attachments. In coming to a decision that contribute to the achievement of the NEO, we have considered interrelationships of the constituent components of our final decision in the relevant attachments. Examples include:

- underlying drivers and context which are likely to affect many constituent components of our decision. For example, forecast demand affects the efficient levels of capex and opex in the regulatory control period (see attachment 5 and 6).
- direct mathematical links between different components of a decision. For example, the level of gamma has an impact on the appropriate tax allowance; the benchmark efficient entity's debt to equity ratio has a direct effect on the cost of equity, the cost of debt, and the overall vanilla rate of return (see attachments 3 and 7).

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98 NEL, s. 7.

99 NEL, section 16(1)(a).

100 This is also the view of the Australian Energy Markets Commission (the AEMC). See, for example, the AEMC, *'Applying the Energy Objectives: A guide for stakeholders'*, 1 December 2016, p. 5.

101 Hansard, *SA House of Assembly,* 26 September 2013, p. 7173. See also the AEMC, *'Applying the Energy Objectives: A guide for stakeholders'*, 1 December 2016, pp. 7–8.

102 NEL, s. 16(1)(d).

103 NER, 6.12.1.

- trade-offs between different components of revenue. For example, undertaking a particular capex project may affect the need for opex or vice versa (see attachments 5 and 6).

In general, we consider that the long-term interests of consumers are best served where consumers receive a reasonable level of safe and reliable service that they value at least cost in the long run.[104] A decision that places too much emphasis on short term considerations may not lead to the best overall outcomes for consumers once the longer term implications of that decision are taken into account.[105]

There may be a range of economically efficient decisions that we could make in a revenue determination, each with different implications for the long-term interests of consumers.[106] A particular economically efficient outcome may nevertheless not be in the long-term interests of consumers, depending on how prices are structured and risks allocated within the market.[107] There are also a range of outcomes that are unlikely to advance the NEO, or advance the NEO to the degree than others would. For example, we consider that:

- the long-term interests of consumers would not be advanced if we encourage overinvestment which results in prices so high that consumers are unwilling or unable to efficiently use the network.[108]
- equally, the long-term interests of consumers would not be advanced if allowed revenues result in prices so low that investors do not invest to sufficiently maintain the appropriate quality and level of service, and where consumers are making more use of the network than is sustainable leading to safety, security and reliability concerns.[109]

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104 Hansard, *SA House of Assembly,* 9 February 2005, p. 1452.

105 See, for example, the AEMC, *'Applying the Energy Objectives: A guide for stakeholders'*, 1 December 2016, pp. 6–7.

106 *Re Michael: Ex parte Epic Energy* [2002] WASCA 231 at [143].

107 See, for example, the AEMC, *'Applying the Energy Objectives: A guide for stakeholders'*, 1 December 2016, p. 5.

108 NEL, s. 7A(7).

109 NEL, s. 7A(6).

A Constituent decisions

Constituent decision
In accordance with clause 6.12.1(1) of the NER, the AER's final decision is that the classification of services set out in Attachment 13 will apply to AusNet Services for the 2021–26 regulatory control period.
In accordance with clause 6.12.1(2)(i) of the NER, the AER's final decision is not to approve the annual revenue requirement set out in AusNet Services building block proposal. Our final decision on AusNet Services' annual revenue requirement for each year of the 2021–26 regulatory control period is set out in Attachment 1 of the final decision.
In accordance with clause 6.12.1(2)(ii) of the NER, the AER's final decision is to approve AusNet Services' proposal that the regulatory control period will commence on 1 July 2021. Also in accordance with clause 6.12.1(2)(ii) of the NER, the AER's final decision is to approve AusNet Services' proposal that the length of the regulatory control period will be five years from 1 July 2021 to 30 June 2026.
The AER did not receive a request for an asset exemption under clause 6.4.B.1 (a) (1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.
In accordance with clause 6.12.1(3)(ii) and acting in accordance with clause 6.5.7(d) of the NER, the AER's final decision is not to accept AusNet Services' proposed total forecast capital expenditure of $1432.9 million ($2020–21). Our final decision therefore includes a substitute estimate of AusNet Services' total forecast capex for the 2021–26 regulatory control period of $1384.1 million ($2020–21). The reasons for our final decision are set out in Attachment 5.
In accordance with clause 6.12.1(4)(i) of the NER and acting in accordance with clause 6.5.6(c) of the NER, the AER's final decision is to accept AusNet Services' proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of $1238.7 million ($2020–21). The reasons for our final decision is set out in Attachment 6.
AusNet Services did not propose any contingent projects and therefore the AER has not made a decision under clause 6.12.1(4A) of the NER.
In accordance with clause 6.12.1(5) of the NER and the modified 2018 Rate of Return Instrument for the regulatory control period commencing on 1 July 2021 for the Victorian DNSPs set out in the Order in Council made under section 16VE of the amended National Electricity (Victoria) Act 2005 (Vic), the AER's final decision is that the allowed rate of return for the 2021–22 regulatory year is 4.83 per cent (nominal vanilla) as set out in Attachment 3 of the final decision. The rate of return for the remaining regulatory years 2022–26 will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
In accordance with clause 6.12.1(5A) of the NER and the modified 2018 Rate of Return Instrument for the regulatory control period commencing on 1 July 2021 for the Victorian DNSPs set out in the Order in Council made under section 16VE of the amended National Electricity (Victoria) Act 2005 (Vic), the AER's final decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.585. This is discussed in Section 2.2 of this final decision Overview.

Constituent decision

In accordance with clause 6.12.1(6) of the NER, the AER's final decision on AusNet Services' regulatory asset base as at 1 July 2021 in accordance with clause 6.5.1 and schedule 6.2 is $4657.4 million ($ nominal). This is discussed in Attachment 2 of the final decision.

In accordance with clause 6.12.1(7) of the NER, the AER's final decision on the estimate of AusNet Services' corporate income tax is zero dollars for each regulatory year of the 2021–26 regulatory control period. This is discussed in Attachment 7 of the final decision.

In accordance with clause 6.12.1(8) of the NER, the AER's final decision is to not approve the depreciation schedules submitted by AusNet Services. Our final decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b) and this is discussed in Attachment 4 of the final decision.

In accordance with clause 6.12.1(9) of the NER the AER makes the following final decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), service target performance incentive scheme (STPIS), demand management incentive scheme (DMIS), demand management innovation allowance mechanism (DMIAM) or small scale incentive scheme (customer service incentive scheme) is to apply:

- We will apply version 2 of the EBSS to AusNet Services in the 2021–26 regulatory control period. This is discussed in Attachment 8 of the final decision.
- We will apply the CESS as set out in version 1 of the Capital Expenditure Incentives Guideline to AusNet Services in the 2021–26 regulatory control period. This is discussed in Attachment 9 of the final decision.
- We will apply our Service Target Performance Incentive Scheme (STPIS) to AusNet Services for the 2021–26 regulatory control period. This is discussed in Attachment 10 of the final decision.
- We will apply the DMIS and DMIAM to AusNet Services for the 2021–26 regulatory control period. This is discussed in the Overview of the final decision.
- We will apply the CSIS to AusNet Services for the 2021–26 regulatory control period. This is discussed in Attachment 12 of the final decision.

In accordance with clause 6.12.1(10) of the NER, the AER's final decision is that all other appropriate amounts, values and inputs are as set out in this final determination including attachments.

In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's final decision on the form of control mechanisms (including the X factor) for standard control services is a revenue cap. The revenue cap for AusNet Services for any given regulatory year is the total annual revenue calculated using the formulae in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. This is discussed in Attachment 14 of the final decision.

In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's final decision on the form of the control mechanism for alternative control services is to apply a revenue cap for type 5 and 6 metering (including smart metering) services and price caps for all other services. The revenue cap for AusNet Services' type 5 and 6 metering (including smart metering) services for any given regulatory year is the total annual revenue for type 5 and 6 (including smart metering) services calculated using the formulae in Attachment

Constituent decision

14, which includes any adjustment required to move the metering unders and overs account to zero. This is discussed in Attachment 14 of the final decision.

In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's final decision is that AusNet Services must maintain a DUoS unders and overs account and a metering unders and overs account. It must provide information on these accounts to us in its annual pricing proposal. This is discussed in Attachment 14 of the final decision.

In accordance with clause 6.12.1(14) of the NER the AER's final decision is to apply the following nominated pass through events to AusNet Services for the 2021–26 regulatory control period in accordance with clause 6.5.10:

- Terrorism event
- Insurance coverage event
- Natural disaster event
- Insurer credit risk event
- Retailer insolvency event

These events have the definitions set out in Attachment 15 of the final decision.

In accordance with clause 6.12.1(14A) of the NER, the AER's final decision is to not approve the tariff structure statement proposed by AusNet Services. This is discussed in Attachment 19 of the final decision.

In accordance with clause 6.12.1(15) of the NER, the AER's final decision is that the negotiating framework as proposed by AusNet Services will apply for the 2021–26 regulatory control period. This is discussed in section 6.2 of this final decision overview and the negotiating framework is in Attachment A of this final decision.

In accordance with clause 6.12.1(16) of the NER, the AER's final decision is to apply the negotiated distribution services criteria, published in our draft decision in September 2020, to AusNet Services for the 2021–26 regulatory control period. This is set out in section 6.2 of this final decision overview.

In accordance with clause 6.12.1(17) of the NER, the AER's final decision on the procedures for assigning and reassigning retail customers to tariff classes for AusNet Services is set out in Attachment 19 of the final decision.

In accordance with clause 6.12.1(18) of the NER, the AER's final decision is that the depreciation approach based on forecast capex (forecast depreciation) is to be used to establish the RAB at the commencement of AusNet Services' regulatory control period as at 1 July 2026. This is discussed in Attachment 2 of the final decision.

In accordance with clause 6.12.1(19) of the NER, the AER's final decision on how AusNet Services is to report to the AER on its recovery of designated pricing proposal charges for each regulatory year of the 2021–26 regulatory control period and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those charges is to set this out in its annual pricing proposal. The method to report recovery of the charges and account for the under or over recovery of designated pricing proposal charges is discussed in Attachment 14 of the final decision.

Constituent decision

In accordance with clause 6.12.1(20) of the NER, the AER's final decision on how AusNet Services is to report to the AER on its recovery of jurisdictional scheme amounts for each regulatory year of the 2021–26 regulatory control period and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those charges is to set this out in its annual pricing proposal. The method to report recovery of the charges and account for the under or over recovery of jurisdictional scheme amounts is discussed in Attachment 14 of the final decision.

In accordance with clause 6.12.1(21) of the NER, the AER's final decision is to not approve the connection policy proposed by AusNet Services. Our final decision is to amend AusNet Services' proposed connection policy as set out in Attachment 18 of the final decision.

In accordance with section 16C of the National Electricity (Victoria) Act 2005, the NEL, the NER and the 'f-factor scheme order 2016',110 the AER's final decision is to apply the f-factor incentive payments/penalties as a part of the 'I-factor' adjustment to the calculation of the total annual revenue requirement using the formulae in Attachment 14 of the final decision.

110 http://www.gazette.vic.gov.au/gazette/Gazettes2016/GG2016G051.pdf, Victoria Government Gazette, G 51 22 December 2016, p. 3239.

B List of submissions

We received public submissions from the following stakeholders on our draft decision and AusNet Services' revised proposal:

Stakeholder
AGL
Ausgrid
Consumer Challenge Panel 17
Electric Vehicle Council
EnergyAustralia
Energy Consumers Australia
Energy Users Association of Australia
Evie Networks
Firm Power
Groundline Engineering
Jemena Electricity Networks People's Panel
Local Government Response, prepared by Victorian Greenhouse Alliances
Origin Energy
Red Energy and Lumo Energy
Victorian Community Organisations, prepared by Brotherhood of St Laurence, Renew, Victorian Council of Social Service

C Consumer engagement framework

The following table represented the framework outlined in our draft decision for considering consumer engagement.[111]

Element	Examples of how this could be assessed
Nature of engagement	• Consumers partner in forming the proposal rather than asked for feedback on distributor's proposal • Relevant skills and experience of the consumers, representatives, and advocates • Consumers provided with impartial support to engage with energy sector issues • Sincerity of engagement with consumers • Independence of consumers and their funding • Multiple channels used to engage with a range of consumers across a distributor's consumer base
Breadth and depth	• Clear identification of topics for engagement and how these will feed into the regulatory proposal • Consumers consulted on broad range of topics • Consumers able to influence topics for engagement • Consumers encouraged to test the assumptions and strategies underpinning the proposal • Consumers were able to access and resource independent research and engagement
Clearly evidenced impact	• Proposal clearly tied to expressed views of consumers • High level of business engagement, e.g. consumers given access to the distributor's CEO and/or board • Distributors responding to consumer views rather than just recording them • Impact of engagement can be clearly identified • Submissions on proposal show consumers feel the impact is consistent with their expectations

Proof point	• Reasonable opex and capex allowances proposed
	  ○ In line with, or lower than, historical expenditure
	  ○ In line with, or lower than, our top down analysis of appropriate expenditure
	  ○ If not in line with top down, can be explained through bottom up category analysis

[111] AER, *Draft decision, AusNet Services distribution determination 2021–26, Overview, September 2020*, Table 7 p. 46.

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP17	Consumer Challenge Panel, sub-panel 17
CESS	capital expenditure sharing scheme
CPI	consumer price index
DER	distributed energy resources
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
EV	electric vehicle
NEL	National Electricity Law
NELA	National Energy Legislation Amendment Act 2020 *(Vic)*
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
repex	replacement expenditure
REFCL	rapid earth fault current limiter
RFM	roll forward model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital