

# 2024-29 Regulatory Proposal

## Overview



31 January 2023

Empowering communities  
for a resilient, affordable  
and net zero future



# Contents

About Ausgrid ..... 3

About this overview of our 2024–29 Regulatory Proposal..... 3

Our role in the community..... 4

Our recent achievements..... 6

Our engagement journey to date..... 8

What we heard and how our regulatory proposal responds .....10

Our engagement program .....12

The regulatory building blocks.....12

Ausgrid’s 2024-29 Regulatory Proposal on a page .....13

Our proposed revenue.....14

Our proposed capital expenditure .....16

Our proposed operating expenditure.....17

Our proposed tariff structures .....18

Our demand forecast approach .....18

# Glossary

- **AER** – Australian Energy Regulator
  - **ASP** – Accredited Service Provider
  - **BAU** – Business-as-usual
  - **CALD** – Culturally and Linguistically Diverse
  - **capex** – Capital expenditure
  - **C&I customer** – commercial and industrial customer
  - **CCC** – Ausgrid’s Customer Consultative Committee
  - **CCF** – The NSW Government’s Climate Change Fund
  - **CER** – Customer Energy Resources
  - **CESS** – Capital Expenditure Sharing Scheme
  - **CSIS** – Customer Service Incentive Scheme
  - **DMIA** – Demand Management Innovation Allowance Mechanism
  - **DNSP** – Distribution Network Service Provider
  - **EBSS** – Efficiency Benefit Sharing Scheme

- **ICT** – Information, Communications and Technology
  - **MP** – Member of Parliament
  - **RAP** – Reconciliation Action Plan
  - **repex** – Replacement expenditure
  - **NIAC** – Network Investment Advisory Committee
  - **NER** – National Electricity Rules
  - **opex** – Operational expenditure
  - **OTI** – Operational Technology and Innovation
  - **PWG** – Pricing Working Group
  - **RCP** – Reset Customer Panel
  - **SaaS** – Software as a Service
  - **SCS** – Standard Control Service
  - **STPIS** – Service Target Performance Incentive Scheme
  - **totex** – Total expenditure

# About Ausgrid

Ausgrid owns and operates the network of substations, powerlines, underground cables, and power poles that delivers power to communities in large parts of Greater Sydney, the Central Coast and the Hunter.

We build, operate and maintain this distribution network with a focus on providing a safe, reliable and affordable energy supply to all electricity consumers in our network area, both now and over the long term.

Our vision is for communities to have the power in a resilient, affordable, net zero future.

The revenue we earn and the prices we charge for our distribution network services are regulated by the Australian Energy Regulator (**AER**) under the National Electricity Rules (**NER**).



# About this overview of our 2024–29 Regulatory Proposal

Every 5 years, we submit a proposal to the AER setting out our plans for serving our communities in the 5 years ahead, including our planned expenditure and pricing.

The AER reviews our proposal to ensure it reflects the services our customers value at the lowest sustainable cost. It then determines how much revenue we can recover from our customers over the 5-year period. This process is known as a ‘regulatory reset’.

We submitted our regulatory proposal to the AER on 31 January 2023, which provides the revenue we propose to recover for customer electricity bills form 1 July 2024 to 30 June 2029.

This is the Overview of our 2024–29 Regulatory Proposal, which must accompany our Regulatory Proposal submission to the AER.

It summarises the core aspects of our Regulatory Proposal, Tariff Structure Statement (**TSS**) compliance paper and our TSS Explanatory Statement for 2024–29 for our customers, including our process for stakeholder engagement.

## Our 2024–29 Draft Plan

To assist us in preparing our Regulatory Proposal we prepared a 2024–29 Draft Plan for consultation with our customers. We sought community views

on the future of the energy industry to identify the main challenges and opportunities we needed to explore when developing our 2024–29 Draft Plan. We published our Draft Plan in September 2022 and invited submissions from stakeholders to improve our approach and inform our 2024–29 Regulatory Proposal.

## Delivering outcomes for our customers

Our Regulatory Proposal details a number of initiatives that will ensure we continue to improve our performance, aligned to customer preferences. For example, we have proposed:

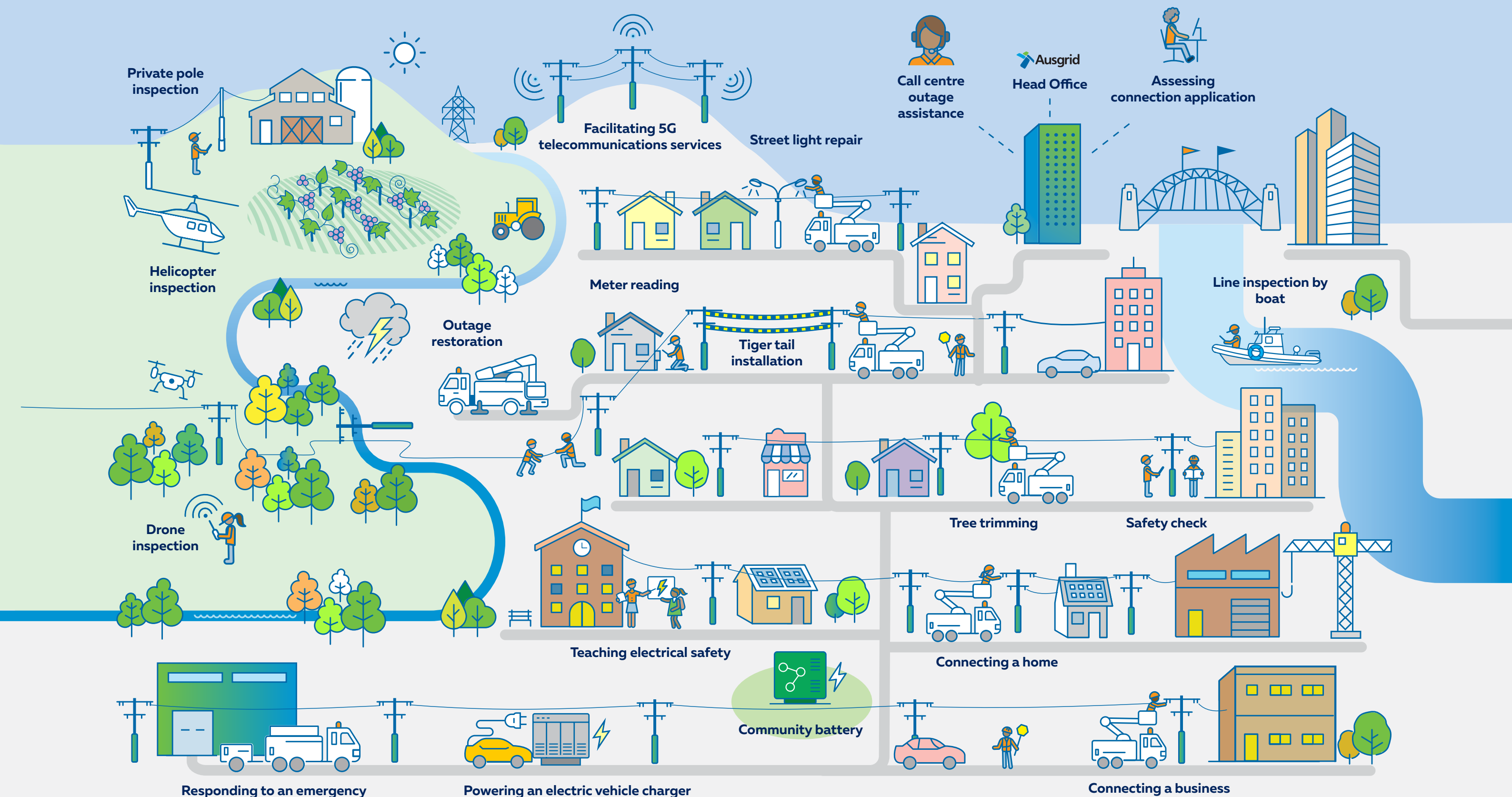
- To retain the Efficiency Benefit Sharing Scheme (**EBSS**), Capital Expenditure Sharing Scheme (**CESS**), and Service Target Performance Incentive Scheme (**STPIS**);
- The introduction of a Customer Service Incentive Scheme (**CSIS**); and
- A range of affordability and productivity initiatives in consultation with our customers and Reset Customer Panel, including customer oversight of our innovation program and review of our Enterprise Resource Platform program.

We are determined to deliver value for money services and consider these initiatives will support our efforts.



# Our role in the community

This diagram shows some of the wide range of services we provide to our community.



# Our recent achievements

Taking bold steps forward, with the support of our customers, has prepared us to meet the challenges of our changing climate and the transition to a low carbon economy.

Ausgrid's Journey: Progressively moving towards a community-focused business by acting on feedback

**Improved reliability**  
Since 2015 we improved our network's reliability by reducing the average number of outages by 11%

**Industry leading safety**  
Since 2015, we reduced our total recordable injury frequency rate by 71%. It is now at an industry leading level

**Genuine engagement with our Customer Consultative Committee**  
Core group of customer advocates established to challenge our customer and service delivery

**Customers directly involved in network investment**  
Established Network Innovation Advisory Committee to guide our 2019-24 innovation program of \$42 million

**Improved bushfire preparedness by working with customers**  
Redesigned approach to rectifying defects on private poles, with strong improvement in customer action (95% of defects rectified)

**Updated materials for customers who rely on life support machines**  
Refreshed materials to reflect customer input, increasing satisfaction from 65 to 77% between May 2020 and March 2022

**Adapted to power outages during COVID**  
Surveyed customers to understand the impact of outages during the high school certificate and worked with 159 customers on the best course of action

**Commenced Sydney's first network-run Community Battery trial**  
Extensive community and council participation to design trial. Potential to save participants up to \$200 a year by enabling them to use more rooftop solar

**Targeted Culturally and Linguistically Diverse community engagement**  
Co-designed Train the Trainer program for community leaders to increase energy and bill literacy. Participants reported more confidence when speaking to their retailer

**Addressed long standing concerns about tree trimming practices**  
Collaborated with City of Newcastle to better plan tree planting activities to deliver urban greening and keep the community safe

**Collaborated with emergency services**  
Hosted a Summer Readiness forum with 91 emergency services and council attendees to review storm protocols and encourage more resilient communities

**Energy efficient public street lighting**  
Worked with 26 councils across Sydney to plan upgrade of 92,000+ main road streetlights with energy efficient LEDs

**Improved network planning for 2025-29**  
Co-designed engagement framework with customers. Voice of Community deliberative panel established with 45 customers over 60 hours across 9 months

**Partnered on net zero - International Community for Local Smart Grids**  
Foundation partner in international collaboration to share knowledge on smart technologies to deliver net zero

**IAP2 Organisation of the Year - Highly commended**  
Recognised for our continued commitment to putting communities at the heart of our business



**Reducing our costs**  
Since 2015, we have reduced our operating costs by over \$400 million (more than 50%) and our share of household bills by \$241 (30% reduction)

**Consulted on network planning for 2019-24**  
Listened to feedback on quality of customer engagement and commenced journey to improve engagement practices

**Removed barriers to service restoration**  
Worked with the regulator on policy reforms that help vulnerable customers

**Joint cross-sector collaboration to improve customer outcomes: the Energy Charter**  
One of the first businesses to provide transparent reporting on customer outcomes against the Energy Charter principles

**Major storm events (2019-20)**  
140,000 customers without power  
Adapted outage information to address customer needs including improved website and SMS

**Introduced 'always on'**  
Voice of Customer Program to capture act on customer and service outcome insights across 25 different channels, increasing customer confidence from 39% to 60% since inception

**Improved website experience**  
Website improvements to make it easier for customers, improving service ease scores from 56 to 70%

**Introduced free electric vehicle charging**  
Extensive community and council participation to install free EV chargers. 15 chargers live; 55.5 tonnes CO<sub>2</sub>-e saved; 162,000km of free EV travel

**Refreshed Strategy FY22 with customer and employee input**  
Customer needs and aspirations research, customer advocate input and 200+ employees shaped Ausgrid's future direction

**Improved performance in Northern Beaches storm event (12/2021)**  
(a test of lessons learnt in 2020)  
35,000 people without power  
68% of customers satisfied with Ausgrid's actions to prepare the community

**Leadership in community resilience**  
Commissioned research on climate impacted areas. Hosted stakeholder forum to identify network solutions, 170 attendees with 82% satisfaction score on the forum

**Published Draft Plan for 2024-29**  
Published our first ever Draft Plan to test our ideas with customers and stakeholders, allowing them to influence our plans for the future, with 30 submissions received

**Merriwa Microgrid**  
Launched our first microgrid project in rural Hunter Valley to help customers most impacted by outages to have alternative sources of emergency electricity

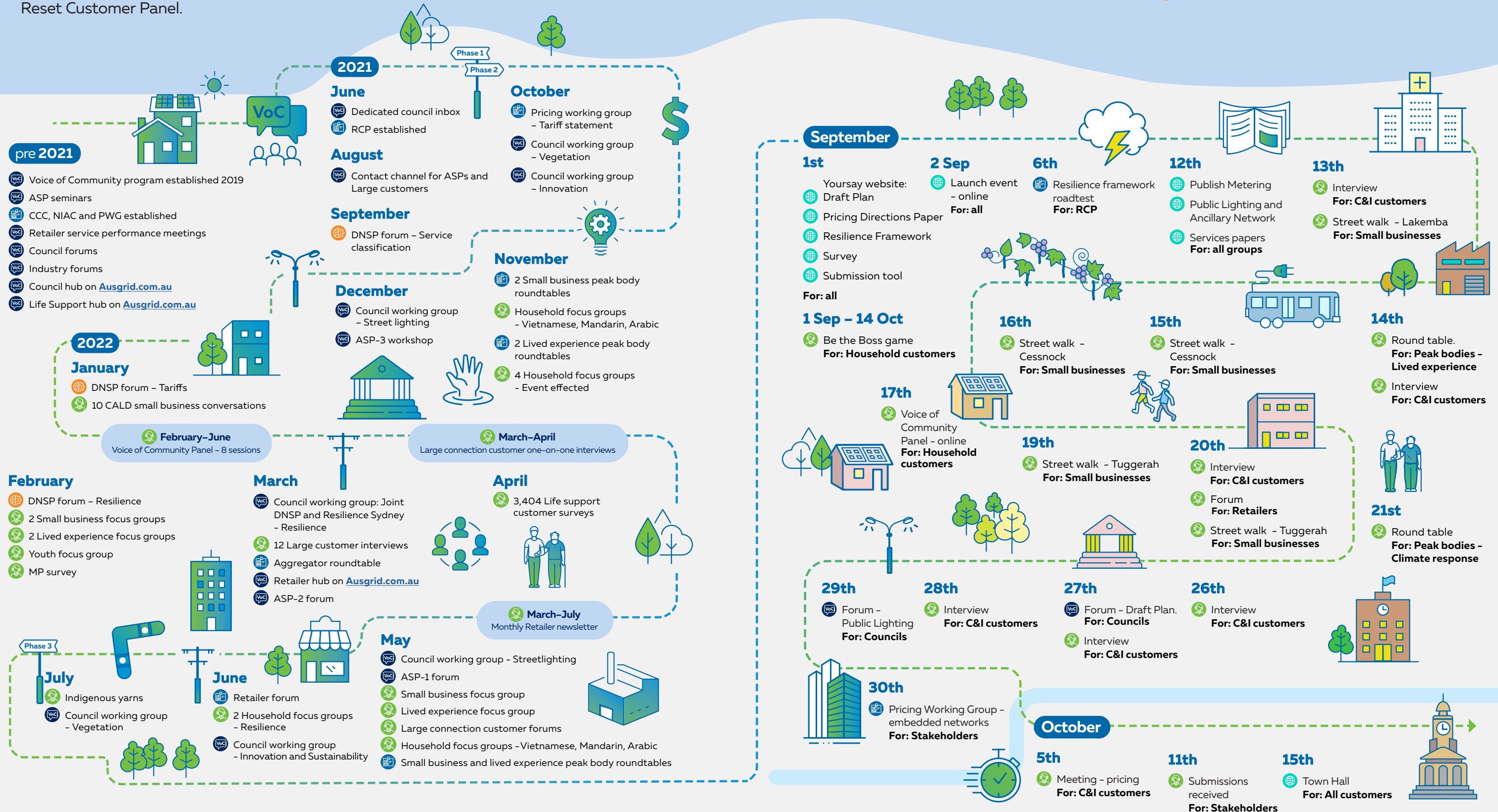
**Emissions target**  
Our emissions target is an 8% reduction by 2023-24, 50% by 2030 and net zero by 2050. So far we are ahead of our plan with a 13% reduction, aligning our own targets with the community's net zero ambition

# Our engagement journey to date

We have partnered with customers to develop our proposal, engaging early and conducting the broadest and deepest engagement program we have ever undertaken. Our engagement has drawn upon our business-as-usual engagement program and has been overseen by our independent Reset Customer Panel.

## Key:

- All
- Voice of Community ongoing engagement program
- Partner and stakeholder engagement
- Customer engagement
- Joint network (DNSP) engagement



**Glossary** ■ **ASP** Accredited service provider. ■ **CALD** Culturally and Linguistically Diverse. ■ **C&I** commercial and industrial. ■ **CCC** Customer Consultative Committee. ■ **DNSP** Distribution network service provider. ■ **Lived Experience** Customers experiencing vulnerability. ■ **MP** Member of Parliament. ■ **NIAC** Network Innovation Advisory Committee. ■ **PWG** Pricing Working Group. ■ **RCP** Ausgrid's Reset Customer Panel.



# What we heard and how our regulatory proposal responds

Throughout our engagement, our customers and delivery partners consistently told us they want Ausgrid to do more than continue to deliver safe, reliable, and affordable energy services over the 2024–29 period and beyond.

While meeting these core expectations remains essential, we have learned that our customers and delivery partners also expect us to support the transition to a cleaner, more sustainable energy system and to help them realise their own net zero ambitions and empower them to manage their own energy costs. Our communities’ top priorities are discussed further below.

## Facilitating an affordable energy transition

Managing the costs of energy has been a major concern for many in our community, even before the recent wholesale energy price increases and worsening cost of living pressures. While our customers support the energy transition, they have told us that it must be affordable and fair. Our customers have told us they want:

- Better, more transparent information about the different costs driving their energy bills to help them manage their costs;
- More flexible pricing, including two-way pricing, to provide for a fairer transition to net zero; and
- Us to invest to reduce our long-term costs, where it is efficient to do so.

Our engagement with our customers has shown us there is a strong belief in the community that pricing electricity to encourage better utilisation of the grid is the right thing to do, and requires clear and relevant communications that enable customers to make informed investments and energy utilisation decisions.

*‘Working with government and social housing to help educate everyone including the low income and vulnerable population on how they can be involved in the drive to net zero, how they can get a smart meter, etc.’ – Town Hall customer*

## Building the resilience of our network to reduce climate and cyber risks

Managing the impacts of extreme weather events is a unanimous priority across our communities. Our customers and delivery partners told us they support the science on climate change and expect extreme weather events to continue becoming more frequent and intense. We heard that:

- Prolonged outages caused by these events cause major disruptions to the lives and livelihoods of impacted communities, and can have major implications for the safety of life support and other vulnerable customers. These potential impacts are becoming increasingly significant as electricity continues to power more and more aspects of our everyday lives;
- Customers consider the costs they bear during an outage as part of their overall evaluation of the cost of electricity;
- Customers in locations at most risk of climate change impacts should not experience materially worse reliability than others. They want us to prioritise building network and community resilience in these high-risk areas – and they want a say in how we do this;
- When outages do occur, customers want us to improve our emergency response. Information is crucial during outages and customers want us to do better in communicating and engaging with them at these times; and
- Customers expect us to work in partnership with other organisations to play our part in a holistic effort to improve community and individual resilience.

Managing cyber security risks is also important. Communities recognise that keeping our network safe from cyber intrusions is essential for the provision of safe and reliable energy services. However, we heard varied views on whether we need a best-in-class approach to mitigating these risks, given the costs involved. We heard at the Town Hall, that recent high profile cyber attacks across a range of organisations in Australia have heightened the communities’ concerns, albeit the risks posed to Ausgrid and our customers vary from other organisations.

*‘For us certainly the communication piece is the number one because we’re large enough that we can organise our own generators and make sure that our stores continue to support the communities that we’re in because food is an essential service. So very much like electricity, we need to keep trading to support the communities in which we operate.’*  
– C&I customer interview

## Delivering net zero

Our household, small business and large customers have told us they want faster progress towards net zero emissions and that they see Ausgrid as a key enabler of their own and the broader communities’ efforts to achieve this. They want us to:

- Proactively prepare our network for net zero to avoid reactive, costly network investments and worsening customer outcomes in the future;
- Prioritise innovations and trials to support the transition; and
- Help them play a key role in the energy transition by providing information and opportunities to do so, including supporting the uptake of lower cost and cleaner energy solutions.

However, customers have told us they are concerned that the transition to net zero needs to be affordable and fair for all – including renters and others who cannot install CER themselves. They want us to find ways to share the benefits across our communities – for example, by advocating for community batteries and other solutions to support equitable access to clean energy in the future.

In particular, community batteries have a lot of support as they provide a means of enabling the storage of solar generated energy in circumstances where residential customers may have limited ability to self-consume or store their own solar.

In terms of Ausgrid’s own transition to a net zero entity, customers want us to reduce our carbon footprint where this is economically justifiable.

*‘More education, explanation to the public about how the tariffs contribute to the cost. And why it is a reasonable and fair change. Things to emphasise: customers are not being charged to export, they are just being rewarded a little bit less; and they are being rewarded for shifting their usage and smoothing out load on the grid.’ – Town Hall customer*

Our plans for delivering a net zero future, how quickly we progress to this future and the sorts of technologies we prioritise in this program have been shaped with our community.

The communities’ views on net zero investments were heavily influenced by their views on the introduction of two-way tariffs and the ability of tariffs to drive better utilisation of the existing assets through behaviour change.

Customers have also been emphatic on the need for networks and Ausgrid specifically to be more innovative.

This is the area where customers would really like to see us do more, and work with market bodies to allow more innovation as part of the regulatory regime. Their feedback has shaped out proposal for the Network Innovation Advisory Committee (NIAC).

## Providing a better customer experience

We heard that our customers’ interactions with us should be a simpler and easier experience. Our residential customers told us they want to be able to speak to a real person when they contact us, and they want better communications from us during outages. Our delivery partners and large customers want us to collaborate more closely, share information more seamlessly and make working with us more efficient.

Our communities also told us our service delivery should be more empathetic to our customers’ diverse individual needs, and that they want us to incorporate Indigenous knowledge to better manage our impact on Country and foster better relationships with Indigenous communities.

Our customers also supported our proposed CSIS and agreed that our selected metrics were priorities for our customers.

*‘We have a major problem with connections across all distributors, the time frames for your new connections are just very lengthy.’ – C&I customer interview*

Following this support we have refined our CSIS metrics based on data availability to set a baseline for customers.



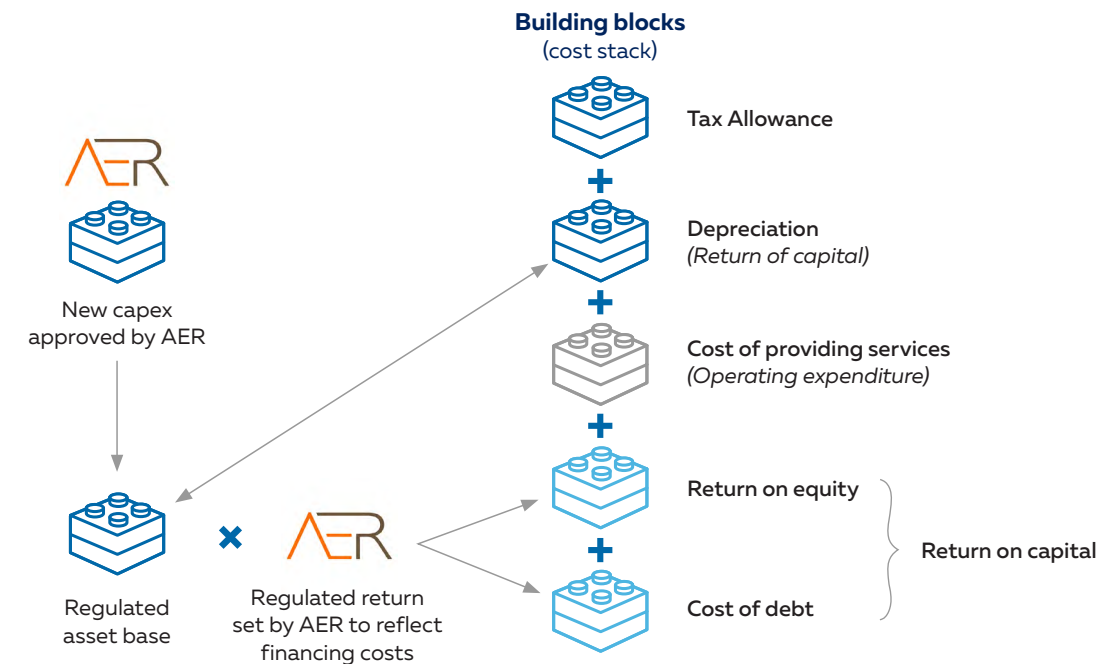
# Our engagement program

To ensure our proposal responds to our customers’ preferences and priorities for the 2024-29 period and beyond, we embarked on an extensive engagement program over more than 18 months. This program integrates our BAU engagement and our reset engagement across five phases as shown in the diagram below.



# The regulatory building blocks

Our proposed revenue is made up of the AER’s regulatory building blocks as depicted in the below diagram.



# Ausgrid’s 2024-29 Regulatory Proposal on a page

Our Regulatory Proposal on a Page summarises how we propose to deliver our customers’ evolving priorities.

<b>Improving customer experience</b>	<b>Transforming the grid</b>	<b>Delivering net zero</b>	<b>Building resilience</b>
More timely and accurate outage information	Introducing pricing arrangements that empower customers and support net zero (see our <b>Tariff Structure Statement</b> )	Connecting 620,000 customer energy assets (including rooftop solar systems, batteries and electric vehicles)	Protecting against cyber attacks by implementing industry best practice safeguards
Making connection processes easier and increasing support for our delivery partners	Prioritising innovation and continued transformation through modernising our systems	Investing to allow another 1 million customer energy assets to connect beyond 2029	Reducing the impact of outages caused by severe weather and supporting community resilience
<b>\$21m</b>	<b>\$204m</b>	<b>\$126m</b>	<b>\$293m</b>

			<b>Legend</b>  ● Increasing priorities ● Continuing priorities \$m 2024-29 total expenditure
<b>Safety and reliability</b>	<b>Connecting customers</b>	<b>Diversity and Inclusion</b>	
Ensuring the safety of our people and the community	Expanding network capacity to accommodate growth	Delivering our Reconciliation Action Plan (RAP)	
Maintaining the performance of our 5 million network assets	Connecting 55,000 new homes and businesses	Improving services for culturally and linguistically diverse (CALD) customers	
<b>\$1,646m</b>	<b>\$190m</b>	Exceeding our employee diversity targets	

# Our proposed revenue

We will use our proposed revenue for the 2024-29 period to maintain and invest in our network and ensure we can continue to meet our customers’ expectations into the future.

We developed this proposed revenue in response to feedback from our customers, delivery partners and other stakeholders. These plans respond to our communities’ desire for a resilient and net zero future, while balancing their ongoing need for an affordable, reliable and safe energy supply.

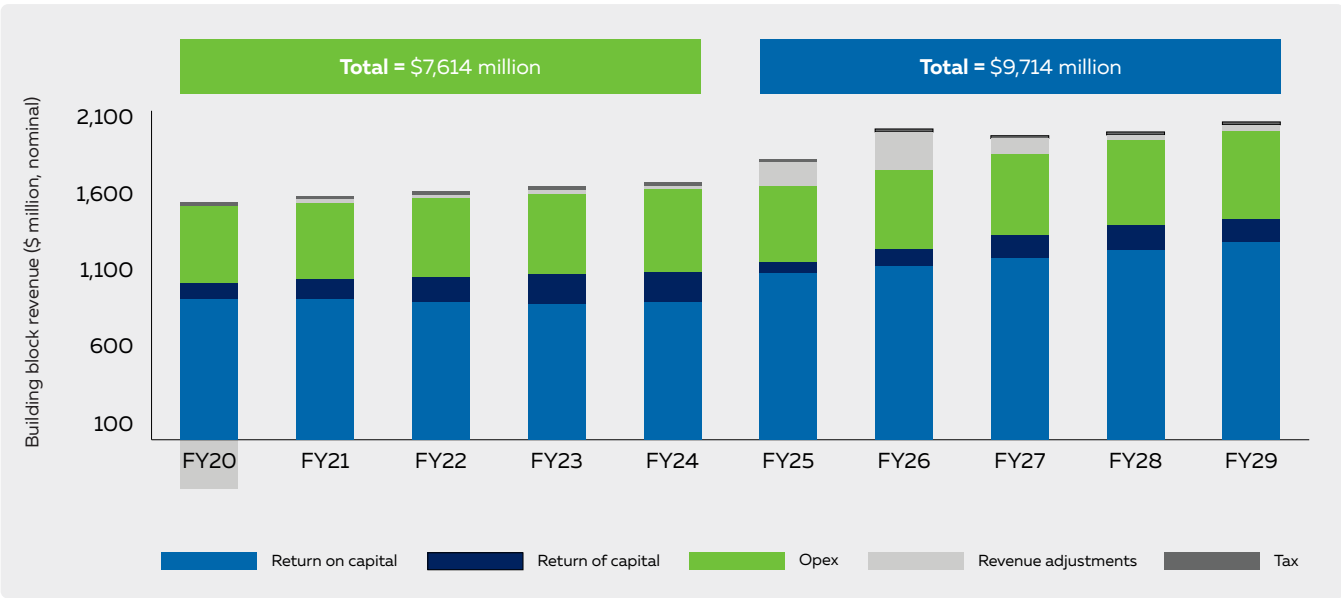
We tested this balance in our Draft Plan and, pleasingly, the overwhelming response was that we had listened well, reflected customer priorities accurately and that the balance between investing for the future and affordability was right.

Our proposed total revenue for the 2024-29 period is \$9,714 million (nominal). This is 28% higher than our forecast revenue for the current 2019-24 period, and 2% higher than the revenue we included in our Draft Plan. We calculated this revenue using the AER’s relevant models and instruments.

Proposed revenue and building block components for the 2024-29 period (\$m, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Return on capital	1,060.9	1,109.1	1,159.8	1,210.3	1,263.0	5,803.2
Return of capital	72.0	105.8	141.1	157.5	143.3	619.7
Opex	486.2	509.2	527.9	547.7	567.8	2,638.9
EBSS	153.5	206.9	63.7	(5.5)	0.0	418.6
CESS	(0.2)	35.6	36.6	37.6	38.7	148.4
DMIA	1.6	1.8	1.7	1.8	1.8	8.6
Shared assets	(2.9)	(3.1)	(3.5)	(3.5)	(3.6)	(16.6)
Tax allowance	19.2	18.9	18.4	18.9	18.0	93.4
Revenue requirement	1,790.4	1,984.1	1,945.8	1,964.8	2,029.1	9,714.2

Proposed annual revenue for 2024-29 compared to current period (\$m, nominal)



**Note:** Negative amount in FY20 caused by the regulatory adjustment where revenue was reduced due to over-recoveries in the 2014-19 period.

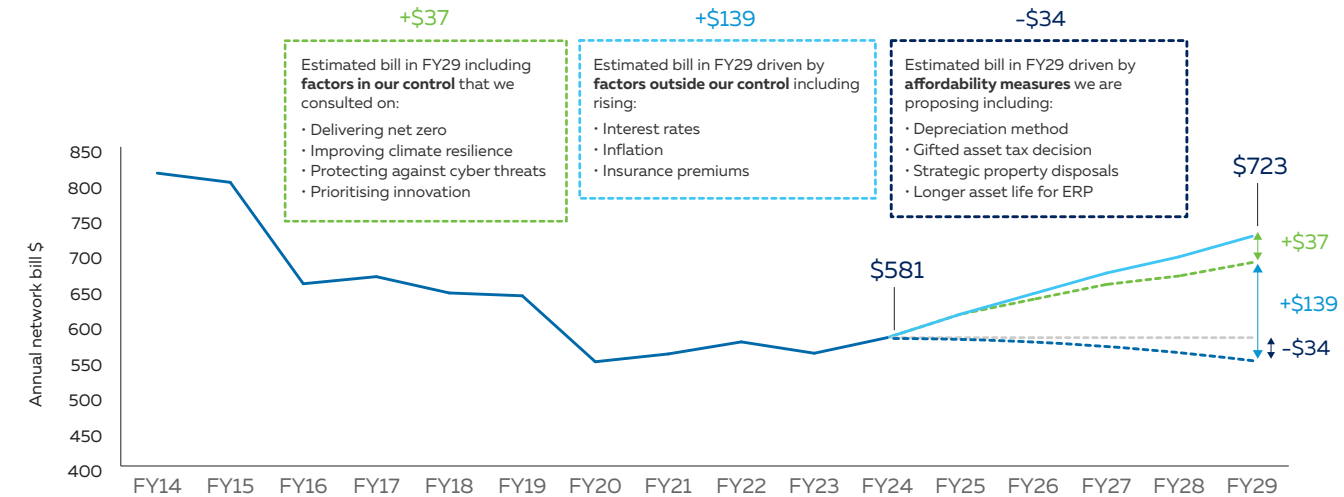
The biggest drivers of the increase between the current period and our proposed revenue are:

- **Return on asset** – higher interest rates have contributed to return on asset being \$1.4 billion or 32% higher than current period;
- **2014-19 remittal** – revenue in the current period was lowered by the repayment of an over-recovery in 2014-19 by \$329 million. A similar adjustment does not apply in the 2024-29 period; and
- **The EBSS** – significant cost reductions in the current period have resulted in an EBSS carryover of \$419 million. There was no EBSS carryover applicable in the current period.

We have been working hard to limit the impact of these whole of economy pressures on our customers. The below figure forecasts a \$142 increase in customer bills, down from the \$149 forecast in our Draft Plan, representing:

- \$37 from **factors within our control** but supported strongly by customers through consultation, down \$1 from \$38 in our Draft Plan;
- \$139 from **factors outside of our control**, up \$28 from \$111 in our Draft Plan; and
- \$34 reduction as a result of our **proposed affordability measures** including strategic property disposals and depreciation methods, which translates to lower electricity bills for our customers. These are new measures introduced since our Draft Plan consultation.

Drivers of potential increases in household network charges (\$ nominal, excl GST)



**Note:**  
1. Ausgrid total network charges include distribution plus pass through of transmission costs and the NSW Climate Change Fund. In FY24 our estimate of total network charges is \$581.  
2. Bill calculated using 5,000 kWh per year, on EA010 to FY23 and EA116 from FY24 onwards.

Estimated annual impacts of our proposal on customer bills over 2024-29 (\$m, real FY24)

Next Period		Residential	Small Business
	FY24	\$429	\$923
	FY25	\$439	\$934
	FY26	\$447	\$955
	FY27	\$459	\$975
	FY28	\$460	\$980
	FY29	\$465	\$989

**Note:** Distribution component only. Some Ausgrid revenue is included in the transmission component of bills. Residential based on EA116 and 5,000 kWh per year usage. Small business based on EA050 and 10,000 kWh per year usage.

If our revenue proposal is accepted, we estimate our total network charges (i.e. transmission distribution and the NSW Climate Change Fund) increase in real terms (adjusting for inflation) by 1.5% for households, 1.4% for small businesses, and 1.8% for large businesses in each year of the 2024-29 period. Distribution charges alone are expected to increase by 1.6% for households, 1.4% for small businesses (see table to the left), and 2.4% for large businesses in each year of the period. We have not included the NSW Energy Infrastructure Roadmap scheme recoveries given this information has not yet been provided by the NSW Government. We note that our customer bill impacts assume a full pass through by retailers and for this reason should be considered estimates.



# Our proposed capital expenditure

Capital expenditure (**capex**) is a significant driver of our component of electricity prices and customer bills. The assets we invest in today can remain in service for 50 years or more.

Capex refers to our investments in the assets we need to deliver our distribution network services to the standard customers expect from us. It includes investments in both network assets (e.g. poles and wires) and non-network assets (e.g. ICT systems, property and motor vehicles).

Some of the assets we have remain in service for over 50 years. As such, we receive income throughout the life of these assets to compensate us for the cost of raising finance to acquire the assets and to recover their value over the period they are in use. In this way, the cost of an asset built today is not just borne by current customers but also future generations that may use the asset over its useful life.

In developing our capex forecast for the 2024–29 period, we aimed to ensure that the forecast reflects the efficient and prudent costs of achieving our capex objectives and providing safe and reliable distribution services to our customers, in accordance with the requirements of the NER.

We consider our capex forecast meets the AER’s expectations, as set out in its Better Resets Handbook.

Our total network and non-network capex forecast for 2024–29 is \$3,311 million or \$662 million per year (real FY24). This is:

- 1% higher than our current period capex, excluding Software-as-a-Service (**SaaS**) implementation costs which are treated as opex for 2024–29; and
- 2% higher than our Draft Plan forecast. The higher forecast compared to our Draft Plan is principally driven by updated inflation.

The below figure sets out our capex forecast for 2024–29 and compares it to our actual/estimated spend in the 2019–24 period.

Our investment on continuing priorities, such as replacing ageing assets and responding to growth in peak demand, is 6% lower in 2024–29 compared to our current 2019–24 period spend. Embedding these savings in our forecast promotes affordability at a time of rising cost of living pressures.

We undertook broad and deep engagement with our customers over an 18-month period ahead of making this Regulatory Proposal. Through this engagement, we identified a set of increasing priorities that are becoming more important to maintaining existing service levels. These increasing priorities include:

- Building climate resilience;
- Responding to cyber threats; and
- Doing our part to facilitate a net zero future by enabling customer-owned renewable generation and storage.

Our net zero priority includes \$126.1 million in CER totex, of which there is \$87 million in network, innovation and ICT systems related capex. This reflects a higher level of spend compared to our expected CER capex of \$4 million in the current 2019–24 period. The increase is driven by an expected 620,000 additional CER assets connecting to our network. We have based our forecast on AEMO’s Step Change Scenario and the feedback from customers telling us that we need to take a proactive approach to CER integration. **Attachment 5.7 – CER integration program** provides further detail.

Our investment in the above three areas of increasing importance gives effect to the trade-off discussions we had with customers, including over 10 sessions with our Voice of Community Panel totalling 60 hours. Our 2024–29 capex also reflects that our internal governance processes are geared towards delivering efficient and prudent outcomes at the lowest long-term cost to customers.

Network and non-network capex forecast for 2024–29 compared to actual/estimated capex for 2019–24, by expenditure category (\$m, real FY24)

Capex category	FY25	FY26	FY27	FY28	FY29	FY20–24 period	FY25–29 period	% change
Replacement	290	277	282	298	299	1,523	1,446	–5%
Resilience	25	39	48	43	39	0	194	n/a
Growth	49	36	36	36	33	207	190	–9%
CER integration	8	10	10	9	10	4	47	n/a
OTI	29	21	20	23	23	204	117	–43%
ICT	74	98	59	36	34	282	301	7%
Fleet	37	36	30	23	22	138	148	7%
Property	68	15	30	25	8	174	145	–17%
Overheads	143	147	149	144	141	743	724	–3%
Total	723	679	664	637	608	3,277	3,311	1%

# Our proposed operating expenditure

Operating expenditure (**opex**) refers to activities and costs that are recurrent. It includes the costs of operating and maintaining our physical assets (such as our poles, wires and substations, monitoring and control systems), responding to emergencies (such as fallen trees on our power lines), undertaking customer-related functions (such as providing call centre services) and back-office functions.

Our opex for the 2024–29 period builds on significant cost reductions implemented since 2015, by making an upfront commitment to reduce our operating costs by \$35 million over the 2024–29 period. Our opex forecast for the 2024–29 period is \$2,375 million, excluding debt raising costs.<sup>1</sup>

This is:

- 14% lower than our current period opex allowance;
- 10% higher than our current period forecast spend; and
- 5% higher than the opex we included in our Draft Plan.

If the impact of the changed accounting treatment of SaaS IT solutions is excluded from our forecast opex,<sup>2</sup> our forecast is 3% higher than the current period spend.

Our opex forecast also includes an upfront \$35 million (\$ real, FY24) productivity saving, which is fully passed through to customers.

Forecast opex, 2024–29 (\$m, real FY24)

Opex	2024/25	2025/26	2026/27	2027/28	2028/29	Total period
Opex excluding debt raising costs	463.6	472.1	475.8	479.9	483.7	2,375.0
Debt raising costs	9.0	9.1	9.1	9.1	9.1	45.4
Total opex	472.6	481.2	484.9	489.0	492.8	2,420.4

## We have transformed our business

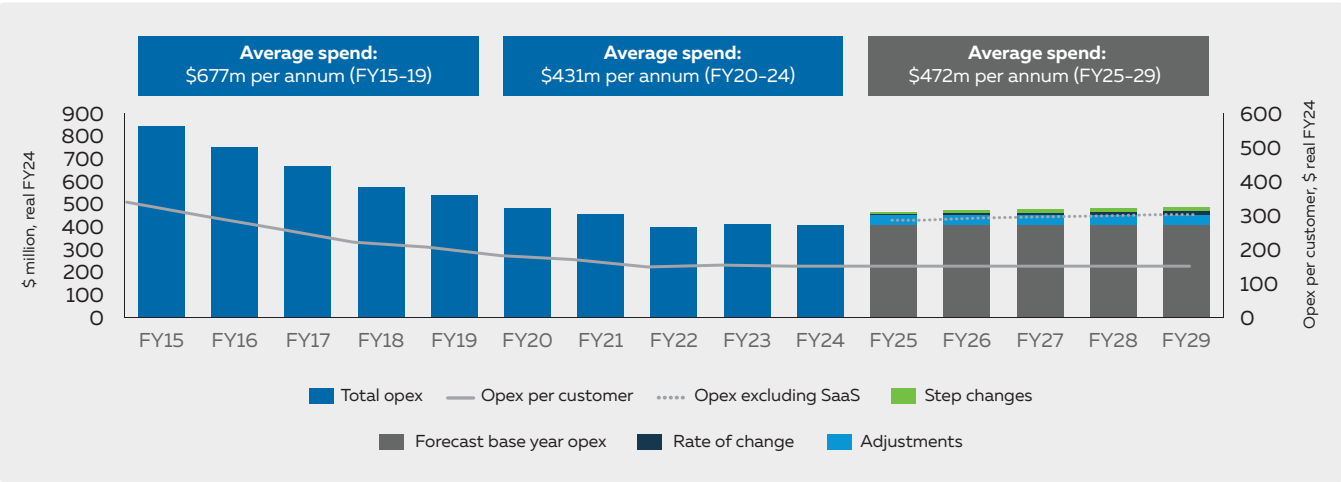
Our business has undergone significant transformation over the current regulatory control period which has reduced ongoing opex and which will be passed through to customers through lower costs in the next regulatory period. These transformation activities include:

- Reducing the number of full time equivalent employees from 3,571 to 2,960; and
- Achieving other significant cost reductions through the implementation of non-labour transformation initiatives including ICT licence cost reductions, savings in vegetation management and reductions in fleet costs.

While we have achieved significant costs savings, our opex forecast for the 2024–29 period indicates that we expect our costs to increase compared to the current period. This is mainly due to:

- The change in accounting treatment for SaaS ICT solutions
- Step changes; and
- Changes to our cost allocation methodology which allocate more indirect costs to standard control services compared to the current regulatory period.

Forecast opex for 2024–29 compared to actual/estimated opex for 2019–24 and 2015–19 (\$m, real FY24)



<sup>1</sup> Debt raising costs are added to total opex to cover, for example, arrangement fees, credit rating fees, and issuer legal counsel fees associated with raising debt.  
<sup>2</sup> In April 2021, the International Financial Reporting Interpretations Committee decided the costs associated with configuring and customising SaaS IT solutions must be treated as opex, rather than capex as previously was the case. We have included these costs in our forecast opex as a step change.



# Our proposed tariff structures

In response to the changes and opportunities ahead for the energy sector, and to what we are hearing in our engagement with our customers and communities, we propose to reform our standard tariff offerings for the 2024–29 period.

We think our proposed reforms would make our price more efficient, flexible, fair, and sufficiently caters for the anticipated electrification of transport. The full details can be found in our **Attachment 8.1 – TSS compliance paper** and **Attachment 8.2 – Our TSS Explanatory Statement for 2024–29**.

Our TSS sets out our pricing structures for the 5-year regulatory period. We undertook intensive engagement in developing our TSS. We formed a Pricing Working Group to inform our revised TSS in 2019–24 and have maintained that working group through the whole regulatory period, informing not only this TSS but our annual pricing and trial tariffs. We have presented our proposed pricing policies at Ausgrid’s retailer forums, discussed pricing as part of the Voice of Community panel process and received submissions to our Pricing Directions Paper we released as a TSS consultation paper. The main issues raised during our consultation related to introduction of embedded network and export pricing structures (as noted below). We have addressed these concerns through our proposed structures and transition measures, and will support implementation through targeted communications.

We currently have about 900,000 residential customers on single energy rate flat tariffs and these numbers are expected to fall significantly over 2024–29. Our tariff assignment policy ensures that customers with smart meters are assigned to cost reflective demand tariffs. These tariffs not only include a demand component, but also a low anytime energy charge and a fixed charge. In 2024–29 we will continue to offer customer opt outs to cost reflective time of use tariffs.

We are proposing six main changes:

- **Introducing tariffs for embedded network operators that will better reflect the costs (over a transition period)** that these business customers impose on our network, so they make a fairer contribution to funding these costs;
- **Streamlining our existing tariff offerings and tariff assignment policies** for our customers to make it easier for retailers to respond to or pass through our price signals to our customers;
- **Simplifying and updating the charging windows for our demand, capacity and time of use tariffs** to make it easier for retailers to pass through our price signals to customers, and ensure peak charges apply when demand on our network is highest;

- **Introducing pricing for utility scale storage facilities**, to enable large batteries and other energy storage facilities connect to our network and create a level playing field for projects located in the distribution network;
- **Updating our controlled load tariffs for residential and small business customers** to reflect changes in the times of day when demand on our network is lowest, and allow our 470,000 controlled load customers to operate their hot water systems during the day when solar energy production is highest; and
- **Starting a transition to cost reflective export pricing for residential and small business customers over two years**, to reflect that we and our customers are paying more each year to host CER customers’ exports and to strengthen incentives for CER customers to self-consume their generation or time exports to minimise network costs. This will help mitigate the need to rely on alternatives, such as costly network augmentation, or constraining exports more frequently. From 1 July 2024 our small customer export tariff is available to all residential and small business customers on demand or time-of-use (TOU) tariffs on an opt-in basis. From 1 July 2025, we will assign all residential and small business customers with demand or TOU tariffs, and all new connections and meter upgrades to our small customer export tariff. We will continue to consult with customers, retailers and other stakeholders on the evolution of our export prices over future regulatory periods.

In addition to innovative tariff options, we have also considered other options including customer education and collaboration, investment in greater network visibility, enhancing our voltage management practices, further reliance on tailored connection agreements, additional network augmentation and export curtailment. We propose to utilise multiple options, including tariffs, taking into account the costs and benefits of each. We have relied less on augmentation given the cost involved, and curtailment given the impact on customers’ ability to derive value from CER. As part of our engagement, our customers proposed a central role for tariffs over the longer-term in managing CER integration, and this is reflected by our introduction of export pricing.

Our 2024–29 tariff reforms will benefit electricity users on Ausgrid’s networks by recovering more costs from embedded networks and new network storage customers, making it easier for retailers to interact with Ausgrid reducing their costs, and creating more opportunities for customers to reduce their network charges by reducing Ausgrid’s long-term costs. We have identified that the uptake of CER, including rooftop solar, battery technology and EVs, combined with more customers receiving off-peak charges at the same time could drive new network peaks. To mitigate this risk we have included an option to delay our peak charging window from 1 July 2027.

# Demand forecasts

Our energy volume forecast is used for the preparation of annual price proposals and revenue forecasting. This ensures that any revenue shortfall or over-recovery from between financial years is minimised. Similarly, our customer connections forecast supports the price setting process and ensures the overall revenue projections are accurate. The customer connections forecast also links to projects of meter numbers and the number of customers assigned to demand tariffs.

Our demand forecasts look at historic trends, economic outlook and population growth to anticipate the likely load on the network. This in turn informs the investments we make to ensure we can meet customers’ anticipated demand. We anticipate that if we get it right and work collaboratively with customers and retail partners, cost-reflective network tariffs can have a larger impact on the usage patterns we see on the network and minimise the network investments we need to make.

The energy volume forecast is prepared by combining an underlying econometric model projection with post-model adjustments for CER (included embedded generators), energy efficiency, and major customer loads. Growth is anticipated in customer numbers, the general economy, electric vehicles and major connections such as datacentres. These elements are, to a degree, offset by projected energy conservation outcomes due to increasing rooftop solar penetration, the impacts of the NSW Energy Savings Scheme and improvements in building and electrical appliance efficiency.

The number of residential and small business customers generating electricity through their rooftop solar systems has been growing over the past 15 years. We are expecting to see strong growth over the 2024–29 period, both in the number of customers with rooftop solar in our network and the average system size. We are also starting to see growth in small residential and business customers installing batteries.

We use an in-house CER model to forecast the behind the meter consumption from solar PV and batteries. By 2029, we expect rooftop solar uptake will nearly double in our network area; and the number of batteries will increase around eight-fold. We also expect to see significant growth in the number of customers owning EVs in our network area over the 2024–29 period and beyond.

Our Regulatory Proposal includes a report by Houston Kemp (**Attachment 8.7 – Price and asset linkages**) that describes how our tariffs can help manage customer usage profiles and future augmentation of the network. The results showed that network expenditure can be reduced via network tariff structures and price signals. Further, there are clear benefits in continuing to improve our cost reflective network tariffs and component structures for the 2024–29 period.

For the 2024–29 period we have included a response to tariffs in our anticipated EV load profiles, targeting what we consider is the factor that will have the most impact over this period. We will also continue to do trials and collaborate with customers and retailers over this period and strengthen our evidence base for the link between cost-reflective network tariffs and usage profiles.





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**For more information visit:**

[www.ausgrid.com.au](http://www.ausgrid.com.au)

General enquiries: 13 13 65 (9.00am to 4.30pm Monday to Friday)

GPO Box 4009 Sydney NSW 2001

ABN: 78 508 211 731