



Consultation Paper

Framework & Approach for the 2029-34 Regulatory Period

August 2026



About this consultation

This is a joint Consultation Paper on the service classification component of the Framework and Approach (F&A) for the NSW distribution network service providers (DNSPs) entering the 2029-34 regulatory reset cycle: Ausgrid, Endeavour Energy and Essential Energy.

Together, we power the homes and businesses of more than 8 million Australians. Our networks underpin electrification, integrate millions of distributed energy resources, connect emerging large loads such as data centres, and support the continued growth of renewable and other clean energy developments.

The F&A marks the first formal step in the 2029-34 regulatory reset process. It establishes the core regulatory settings that shape the regulatory reset, including service classification (the subject of this Consultation Paper), incentive schemes and control mechanisms

Why service classification matters

The way customers use, generate and share energy has changed profoundly. This raises important questions about the role of distribution networks in enabling customer outcomes through the energy transition, including how customers access new and emerging services, and how regulation supports long-term customer outcomes.

Many of these questions are currently being considered through ongoing consultations, including the Australian Energy Market Commission's (AEMC's) [Electricity Network Regulation Review](#) and the Australian Energy Regulator's (AER's) [Review of the Ring-fencing guideline \(electricity distribution\) and Shared Asset Guideline](#). They are also being shaped and informed by policy updates, including:

- the Federal Department of Climate Change, Energy, the Environment and Water's (DCCEEW's) Consumer Energy Resources (CER) Taskforce [December 2025 advice](#) to the Energy Ministers regarding "redefining roles and responsibilities for power system and market operations in a high CER future"; and
- ongoing Federal and State consideration of data centres, including the Prime Minister's [15 July 2026 address](#) foreshadowing national standards for data centres and, within NSW, consultation regarding the principles for data centre investment set out in the [NSW Data Centre Consultation Paper](#).¹

We recognise it is through service classification that the AER defines the boundary between services DNSPs may provide and those considered to be better delivered through competitive markets. Accordingly, in engaging with our customers in relation to service classification, we are seeking views in relation to the following:

What balance of regulated and contestable services is likely to deliver the best long-term outcomes for customers while making full use of the assets customers have already funded?

The NSW DNSPs are also engaging in these other ongoing consultation processes to facilitate a co-ordinated consideration of service classification issues.

Making existing opportunities actionable through the F&A

This paper builds on a broader body of reform work already underway. Most notably, the NSW DNSPs' Distribution System Plan (DSP) Opportunities Report² identified significant value in opportunities such as distributed batteries, electric vehicle charging infrastructure, CER coordination, and emerging large loads, while also highlighting where planning, approvals and regulatory settings may need to evolve to unlock that value.

This paper is not proposing a fundamentally new direction for the NSW DNSPs. Rather, it considers whether the framework can evolve incrementally to support developments already underway, including where temporary or bespoke arrangements, such as waivers, may warrant more enduring treatment under the National Electricity Rules (NER).

¹ Prime Minister of Australia, Media release, 'AI in Australia's interests' (15 July 2026). In NSW, Infrastructure NSW is considering how the NSW Government approaches data centre investment (see Infrastructure NSW's March 2026 '[Data Centre Consultation Paper](#)').

² A copy of the NSW Distribution System Plan can be found at <https://www.nsw-dsp.com.au/>

The paper highlights a service grouping relating to providing access to DNSP-owned assets (specifically, electric vehicle charging infrastructure and distributed batteries) and also foreshadows a number of evolving matters, including in relation to expectations that DNSPs take on the Distribution System Operator (**DSO**) role and developments relating to data centres, which potentially give rise to service classification considerations. Consistent with the AER's approach, we are considering these matters as "service groupings" rather than individual technologies or assets.

Service group	Examples	More information
Providing access to DNSP-owned assets	Electric Vehicle (EV) Charging Infrastructure	Section 1
	Distributed batteries	Section 2
Evolving energy services	Distribution System Operator services and data centre connections	Section 3

Principles for considering these opportunities

In considering this paper, we invite stakeholders to reflect on three core efficiency principles:

- **productive efficiency** – making full use of existing network capability before turning to new build
- **allocative efficiency** – directing investment and activities to where they deliver the greatest benefit
- **dynamic efficiency** – preserving opportunities for competition and innovation.

Making existing opportunities actionable through service classification can support all three efficiency principles. In particular, targeted evolution of classifications can promote **productive efficiency** by enabling DNSPs to use existing assets in new ways, rather than defaulting to new infrastructure solutions. This supports a "use more before building more" approach, helping networks extract greater value from existing assets before investing in new build.

In our view, **allocative and dynamic efficiency** often go hand in hand. This paper outlines, for example, how DNSPs might provide enabling infrastructure for EV charging, while energy sales and other customer-facing services remain contestable. This promotes **allocative efficiency** by leveraging DNSP strengths as infrastructure providers while leaving energy sales and customer-facing services to competitive markets. The result is that activities are **allocated** to the parties best placed to deliver them efficiently. This also supports **dynamic efficiency** by preserving competition and innovation in the contestable elements.

Next steps

Each of the three NSW DNSPs is undertaking customer and stakeholder engagement in a manner that meets the specific needs of their customers and stakeholders. Please contact each NSW DNSP if you would like to make a submission in response to this Consultation Paper.

A high-level overview of the full AER regulatory reset process is outlined below, indicating that the AER's final F&A decision is to be published in July 2027. This will confirm the initial classification of services, among other things, and binds the AER to those positions unless a 'material change in circumstances' occurs between the publication of the AER's F&A decision and the final determination for the NSW DNSPs (April 2029).³

Date	Step
August 2026	NSW DNSPs begin consultation on our F&A consultation paper
By 31 October 2026	NSW DNSPs request that the AER makes a new F&A for the 2029-34 regulatory period
By 31 July 2027	AER is expected to publish a new F&A for the 2029-34 regulatory period

³ AEMC, 'National Electricity Rules', (version 246), cl 6.12.3(b).

Date	Step
By 31 January 2028	NSW DNSPs submit their proposals for the 2029-34 regulatory period
September 2028	AER is expected to make its draft determinations for the NSW DNSPs
By 30 November 2028	NSW DNSPs submit their revised proposals, responding to the AER's draft determinations, for the 2029-34 regulatory period
April 2029	AER makes its final determination for the NSW DNSPs
1 July 2029	2029-34 regulatory period commences

Summary of our current preferred positions ⁴



Classification options		AGD	END	ESS
 EV charging (section 1)	Maintain current arrangements 1 Retailers, e-mobility providers and other third parties are unable to access NSW DNSP-owned EV charging infrastructure to provide services to end users without DNSPs obtaining a ring-fencing waiver from the AER.			
	Providing access under Standard Control Service (SCS) arrangements 2 Retailers, e-mobility providers and other third parties can access NSW DNSP-owned EV charging infrastructure with the capital and operating costs recovered through general network tariffs.	✓	✓	✓
	Providing access under Alternative Control Service (ACS) arrangements 3 Retailers, e-mobility providers and other third parties can access NSW DNSP-owned EV charging infrastructure with the capital and operating costs recovered through an AER regulated fee paid by those third parties. This fee would be passed through to EV drivers using the EV charging infrastructure.			
	Providing access under negotiated arrangements 4 Retailers, e-mobility providers, and third parties negotiate access terms, including pricing, directly with NSW DNSPs.			
 Distributed batteries (section 2)	Maintain current arrangements 1 Spare capacity in DNSP-led batteries cannot be leased to third parties to participate in contestable markets without a ring-fencing waiver from the AER			
	Leasing out capacity in DNSP-owned storage assets as an unclassified service 2 DNSP owned batteries that serve a network purpose should be able to lease spare capacity as an unclassified service without acquiring a ring-fencing waiver from the AER	✓	✓	✓

⁴ See the next section for more information on SCS (Standard Control Services), ACS (Alternative Control Services), and negotiated services.

How service classification works

The focus of this F&A consultation paper is service classification. Service classification matters because it defines the boundary between services that DNSPs may provide and those that must be delivered through contestable markets. In this way, service classification determines the extent to which DNSPs may undertake particular activities within the “ring-fence”, versus activities that must be structurally separated (and undertaken in compliance with the AER’s Ring Fencing Guideline) or left to competitive providers.

The process that the AER follows to classify a new or existing activity begins by assessing whether it meets the definition of a ‘distribution service’ (set out in the box below). If it does, the AER classifies the service into one of three categories:

1. Standard control services (**SCS**), which are core shared-network services, the costs of which are recovered from all customers through AER-approved charges.
2. Alternative control services (**ACS**), which apply to services provided to specific customers or customer groups to whom costs can be directly attributed.
3. Negotiated distribution services, which are services where terms and prices are agreed between the DNSP and the specific customer under an AER-approved framework.

Where the AER considers that an activity is not a distribution service, it may identify it as ‘unclassified’ or decide not to classify it at all. In practice, either outcome limits the ability of DNSPs to provide those services within the regulated framework under the NER.

In past F&A processes, the NSW DNSPs have observed that ***there has not always been a clear focus on whether an activity meets the definition of a distribution service*** under the NER. This consultation seeks stakeholder views on that question in relation to a number of emerging activities, to help inform our future interactions with the AER on these issues. Our views are set out throughout this document and summarised graphically on the next page.

AER’s three-step classification process

When classifying services, the AER applies a structured assessment:

1. Is the activity a distribution service?

The AER assesses whether the service is provided by means of, or **in connection with**, a distribution system. This is set out in more detailed on the next page.

2. Does it require economic regulation?

Considerations include market power, cross-subsidy risks, competitive conditions and consumer protection.

3. If regulated, how should it be classified?

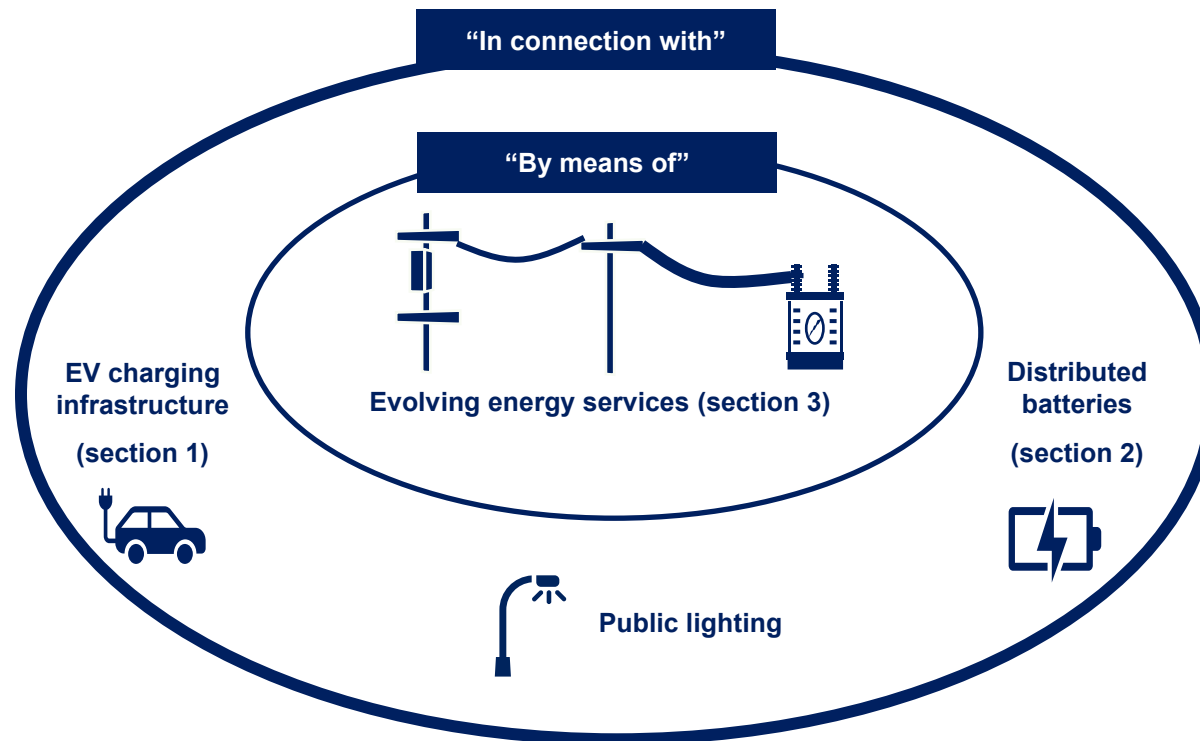
The AER determines whether SCS or ACS is most appropriate. In making this decision, clause 6.2.2 of the NER requires the AER to consider the following:

1. Potential for competition and how classification affects it.
2. Administrative costs for the AER, DNSPs and users.
3. The prior regulatory approach to the service.
4. Consistency with approaches to similar services.
5. The extent to which costs can be directly attributed to customers.
6. Any other relevant factor.

The Federal Court’s decision in *Ergon Energy v AER* (2012) FCA 393 illustrates the breadth of what may constitute a distribution service in step 1 above. The Court found that a service can still fall within this definition even if it is not physically part of the network, provided it is delivered “in connection with” the distribution system. This interpretation has clear implications for how new and emerging services are treated as outlined on the next page.

How the NSW DNSPs draw the boundaries of a distribution service

For a DNSP to provide a service, the NER does not require the activity to be delivered “by means of” the distribution system. It is sufficient that the service is provided “in connection with” the distribution system, as illustrated in the diagram below.



Legal test: **How the boundary is drawn**

In [Ergon v AER \[2012\] FCA 393](#), the Federal Court clarified how to interpret the NER. It found that a service does not need to be part of moving electricity through the network. It is enough if the service is provided “in connection with” the distribution system. In that case, public lighting was found to meet this test.

Applying this reasoning, other services that are closely connected to the network such as EV charging on poles and leasing access to storage assets may also fall within scope.

The following sections consider each of these services in turn.

1 EV charging infrastructure

Overview

EVs can deliver major customer and system benefits, from lowering overall household energy costs to reducing emissions through the decarbonisation of transport. However, Australia's current public-charging network lags well behind international peers in both density and coverage, creating three key opportunity costs:

1. many households cannot access the energy savings associated with EV ownership as limited access to public chargers discourages EV uptake;
2. the wider customer base misses out on bill reductions that come from higher network utilisation; and
3. Australia cannot accelerate transport electrification at the pace needed to meet national emissions targets.

DNSPs can play an important facilitation role in unlocking these benefits by enabling third party access to EV charging infrastructure.

Maximising the use of existing assets while preserving competition

Our proposed SCS classification will allow the NSW DNSPs to deploy EV chargers where the grid already has spare capacity, reducing reliance on new build. At the same time, competition is preserved by keeping all market-facing services fully contestable, with retailers and e-mobility providers operating over DNSP-owned hardware.

What we are, and are not, proposing

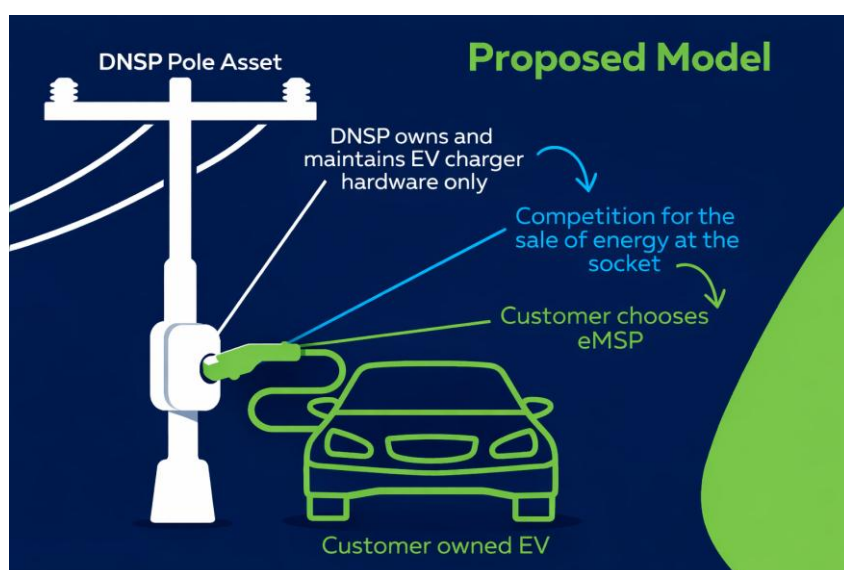
We are proposing a targeted SCS approach that focuses on kerbside alternating current (**AC**) chargers (i.e. 'slow' chargers) in underserved areas where the market is not responding. DNSPs would install and maintain the infrastructure on our existing power poles, while third parties compete to deliver charging services through open-access assets. Fast charging and commercially viable locations would remain fully contestable.

This model would expand access to EV chargers particularly for renters and apartment dwellers and rural and regional motorists, align pricing more closely with at-home charging, and leverage DNSPs' capabilities to deliver safe, reliable infrastructure with high uptime. Energy Networks Australia (**ENA**) submitted a rule change request to the AEMC to implement this model through changes to the NER.⁵ The Federal Government has also submitted a separate rule change request to enable DNSPs to rollout EV chargers.⁶ The AEMC recently commenced consideration of the Federal Government's rule change request, while the ENA's rule change request is being considered as part of the AEMC's Electricity Network Regulation Review.

⁵ Energy Networks Australia, [Enabling distribution network service provider led electric vehicle charging infrastructure rule change request](#), April 2026.

⁶ Federal Department of Climate Change, Energy, the Environment and Water, [Facilitating EV charging infrastructure rollout under Commonwealth grants rule change request](#), April 2026.

Figure 1: Our proposed model for kerbside EV charging



	What we are proposing...	What we are <u>not</u> proposing...
Asset ownership	A targeted role for DNSPs to provide and own kerbside AC EV charging infrastructure in underserved areas where the market is not responding.	We are <u>not</u> proposing DNSPs own or fund all EV charging infrastructure, including fast charging or commercially viable charging sites.
Customer facing services	Retailers and e-mobility providers have open access DNSP-owned chargers and compete to provide charging services to end users.	We are <u>not</u> proposing DNSPs sell energy, provide charging services to customers, or participate in competitive retail markets.
Extent of change	A targeted extension of existing arrangements to allow open access to DNSP-owned infrastructure through a regulated service classification	We are <u>not</u> proposing a fundamental expansion in the role of DNSPs, or displacing competition where markets are functioning or likely to emerge

Our proposed SCS classification also reflects that the regulatory framework classifies services, not assets. EV chargers are assets that DNSPs can already own where they serve a network purpose (e.g. charging our own fleet of EV trucks). The issue is that current settings limit third-party access to that infrastructure. Our proposal seeks to address that constraint by allowing retailers and e-mobility providers to access DNSP-owned chargers on an open-access basis, while customer-facing services and energy sales remain fully contestable. This maintains a clear separation between infrastructure provision and competitive service delivery, while supporting more efficient use of existing capacity.

Why we are proposing this

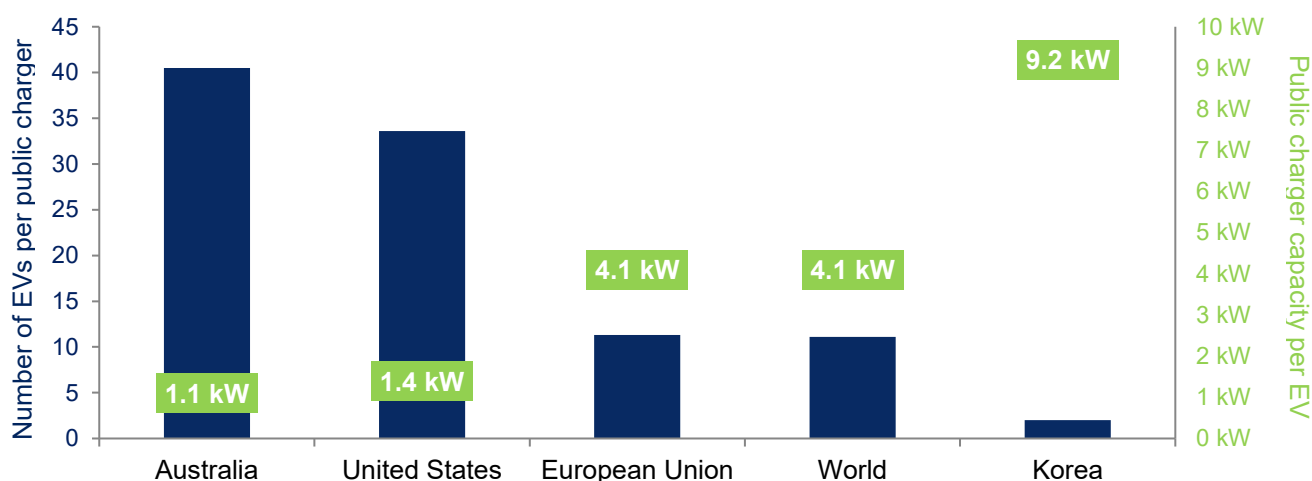
The following sections set out the key grounds for changing the current classification of EV charging infrastructure. In particular, we outline the benefits for customer affordability, system utilisation and emissions reduction, and explain how a targeted DNSP role can deliver these outcomes while preserving competition.

Broadening access to household energy cost savings

Electrifying transport is a clear energy-affordability win: Energy Consumers Australia estimates EV owners save around \$1,400 per year in combined fuel and energy costs.⁷ However, these savings depend on routine access to convenient, low cost, reliable charging.

Australia's highly decentralised approach to charging has delivered one of the weakest public-charging networks globally. As shown in Figure 2, Australia has ~40.5 EVs per public charging point compared with a global average of ~11.1, and only 1.1 kW of public-charging capacity per EV, almost a quarter of the global benchmark of 4.1 kW.⁸

Figure 2: Australia has among the lowest levels of public EV charging⁹



Electrification and system utilisation

A targeted SCS classification for kerbside AC charging could unlock system benefits by enabling delivery where the market is not responding. It would improve asset utilisation, support a coordinated rollout, and enable flexible charging and future vehicle-to-grid services.

Under the AER's revenue cap, increased EV charging lowers unit network charges by spreading fixed revenue over higher energy volumes. For Ausgrid, this is expected to reduce bills by around \$14 per residential customer per year by 2030.¹⁰

While pricing reforms may increase fixed charges, volumetric components will remain relevant through 2029-34, meaning these bill benefits are likely to persist, albeit potentially in a moderating form.

Emissions reduction

Transport is Australia's third-largest source of emissions, and rapid electrification of road transport is essential to meeting national climate targets. The Climate Change Authority estimates that half of all light-vehicle sales between now and 2035 must be EVs to stay within the 62-70% emissions-reduction range.¹¹ In 2025, EVs made up only 12% of new car sales;¹² a long way from the trajectory required. While EV purchases have increased significantly in 2026 in response to rising fuel prices following the closure of the Strait of Hormuz in February, it remains uncertain whether this rise will be sustained over the long term.

The key constraint is infrastructure. Australia needs a rapid scale-up of public charging this decade, but the current model is not delivering the pace or coverage needed.

⁷ Energy Consumers Australia, [Stepping Up: A smoother pathway to decarbonising homes](#), Figure 6, 2023.

⁸ International Energy Agency, [Global EV Outlook 2026](#), fig 6.4; International Energy Agency, ['Number of electric light-duty vehicles per public charging point and kilowatt per electric light-duty vehicle, 2025'](#) (14 April 2026).

⁹ International Energy Agency, [Global EV Outlook 2026](#), fig 6.4; International Energy Agency, ['Number of electric light-duty vehicles per public charging point and kilowatt per electric light-duty vehicle, 2025'](#) (14 April 2026).

¹⁰ Estimate based on a residential customer consuming 5000 kWh p.a.

¹¹ Climate Change Authority, ['2035 Targets Advice'](#) (12 September 2025), p 4.

¹² Electric Vehicle Council, ['State of Electric Vehicles'](#) (2025), p 17.

This strengthens the case for a targeted SCS classification for kerbside AC charging. Allowing DNSPs to invest where the market is not responding would enable broader, more reliable infrastructure and support the current wave of EV uptake.

Without a more coordinated and scalable approach, Australia will struggle to meet its emissions targets.

Why not negotiated services?

We note the AER's final decision in Victoria to classify the rental of distribution assets for EV charging infrastructure as a negotiated distribution service.¹³ However, that decision considered a narrower model where DNSPs provide access to existing assets (such as distribution poles) for third parties to install and operate their own EV charging infrastructure.

The model proposed in this paper is different. It involves DNSPs owning and maintaining EV charging infrastructure, while competitive e-mobility providers are provided with open access to those assets and continue to provide customer-facing services such as energy retailing and charging products.

In our view, this better promotes allocative efficiency by allowing DNSPs to focus on infrastructure delivery, while preserving competition and innovation in contestable customer-facing services. It also has greater potential to support EV charging deployment at scale, including in underserved locations.

We recognise others may have different views

We recognise some stakeholders may be concerned a DNSP role in EV charging could crowd out contestable markets. That concern is important, but the narrow scope of what is proposed should not be overlooked.

In particular, we ask stakeholders to place weight on the proposed SCS role being narrowly scoped to kerbside AC charging in underserved locations, with fast charging and commercially viable sites remaining fully contestable, and retailers and e-mobility providers competing over open-access infrastructure. In this way, the proposal seeks to balance productive and allocative efficiency gains, through improved asset utilisation and lower network costs, with dynamic efficiency, by preserving competition and innovation.

Some stakeholders may prefer an ACS classification, which is a more user pays model. This may also be a viable longer-term pathway as the market matures.

Stakeholder questions

1. Do you consider that electricity distributors should be permitted to provide access to DNSP owned EV charging infrastructure as a regulated service? Why or why not?
2. If DNSPs should be able to offer access to EV charging infrastructure as a regulated service, should that service be classified as a SCS or ACS?

¹³ AER, '[Final decision AusNet Services, Jemena, CitiPower, Powercor and United Energy electricity distribution determinations 1 July 2026 – 30 June 2031 Attachment 11 – Service classification](#)' (September 2025), p 22.

2 Distributed batteries

Overview

Distributed battery energy storage systems (**DBESS**) are small to medium-scale batteries up to 5MW connected to distribution networks connected to the medium and low-voltage network. They can provide network support (such as peak shaving, voltage management and hosting capacity increases) while also enabling broader system and customer benefits. For example, DBESS can enable customers in the Ausgrid network area to save around \$200 a year on their electricity bills by storing energy locally and reducing reliance on the broader network.¹⁴

Also by way of illustration, Endeavour Energy's existing community battery program, delivered in partnership with the Federal Government's Community Batteries for Household Solar initiative and Australian Renewable Energy Agency (**ARENA**) funding, involves the deployment of 76 community batteries across 33 suburbs (including Greater Western Sydney, the Blue Mountains, the Illawarra, the Southern Highlands and the South Coast) benefiting thousands of households with cheaper, cleaner energy and improved network reliability. Under this model:

- Endeavour Energy deploys and manages the community battery infrastructure as part of its distribution system, supporting network needs such as peak demand management and local solar integration;
- residential customers register to participate, gaining access to stored energy and potential bill savings without needing to install their own battery; and
- commercial partners provide platforms to orchestrate charging, discharging and wholesale market dispatch, unlocking additional value from the stored energy.

The key regulatory issue is not whether DNSPs can own and operate batteries (given that DNSPs can already invest in storage where it addresses a demonstrated network need). Rather, the issue relates to how spare capacity in DNSP-owned batteries can be used once the primary network need has been met. Currently DNSPs require a ring-fencing waiver from the AER to be able to lease spare capacity in batteries.

Leasing of excess battery capacity

Batteries provide significant network benefits in improving network reliability and/or managing demand but at times these assets will be idle. There are significant opportunities to improve the utilisation of network batteries, and more importantly the value they can provide customers, by leasing excess capacity to third-parties. We also support the principle that distribution customers should only fund the costs associated with providing a network service. We consider controls such as cost allocation and revenue sharing should be used to maximise the value of batteries while ensuring network customers do not cross-subsidise non-distribution services.

Currently, service classification recognises the unregulated distribution service of "distribution asset rental", while the component of the battery that is used for shared network services is regulated as a SCS.

We note that the AER is not obliged to classify services that it does not regulate as either a direct control service or negotiated service. In the case of "distribution asset rental", and some other unregulated distribution services, the AER does so in order to provide clarity from a ring-fencing perspective given 'other distribution services' and 'non-distribution services' are treated differently.

AER should consider service classifications in parallel to ring fencing

We consider that the leasing of the battery capacity (as opposed to the facilitation costs) should be an unclassified service. However, we consider that current ring-fencing restrictions create significant barriers to maximising system and customer benefits. As a result, we recommend that the AER's current review of ring-fencing guidelines must be considered in conjunction with its decision on service classification.

¹⁴ Ausgrid, '[Central Coast locals set for power bill relief with battery rollout](#)', 22 May 2026.

The current waiver-based approach creates unnecessary complexity and delays despite the limited risk posed by these arrangements. In this respect and using the model proposed here:

- **The risks are low and manageable:** Only the network benefit of batteries is apportioned to the Regulatory Asset Base (**RAB**). As a result, the risks of cross-subsidisation and competitive distortion are low and can be effectively managed within existing regulatory frameworks. Competitive markets may also benefit through reduced market entry costs for retailers.
- **Maximising value from existing assets:** Battery assets are capable of delivering both network and market services. Allowing spare capacity to be utilised by third parties ensures that these assets are used more efficiently and that the full value of the investment can be realised.
- **Accelerating customer benefits:** Removing procedural barriers would support faster deployment of battery projects. Earlier deployment means customers can benefit sooner from improved network performance, increased system flexibility and lower overall costs. Further, leasing revenues would be subject to the shared asset guideline and subject to materiality, could help make network bills lower than they otherwise would be.
- **Encouraging efficient and innovative investment:** Removing ring-fencing would encourage DNSPs to pursue investments that deliver multiple customer benefits rather than relying solely on traditional network augmentation solutions. This would occur as DNSPs would have greater certainty about being able to lease out spare capacity on DBESS, reducing the time and cost of investing in DBESS.

Removing the requirement for a ring-fencing waiver to provide a third-party access service, aligns with the broader energy transition by promoting innovative infrastructure solutions that can support both network needs and wider system outcomes while maintaining appropriate competitive boundaries. We consider that there is now sufficient evidence of customer benefits to support recognising the leasing of spare capacity in community-scale storage to third parties as a distribution service.

Maximising the use of existing assets while preserving competition

Our preferred classification enables NSW DNSPs and our customers to extract more value from solar funded by customers. It avoids costly network investment by allowing storage to manage local constraints before new poles and wires are required. It also enables more customers to benefit from the bill savings of solar energy. At the same time, it preserves competition by ensuring all contestable activities, including participation in energy markets, remain with retailers and aggregators rather than DNSPs.

What we are, and are not, proposing

Enabling the leasing of spare capacity in DBESS without an AER ring-fencing waiver is a targeted, incremental adjustment to the established DBESS delivery model.

Under this approach:

- DNSPs do not participate directly in energy markets. Instead, spare battery capacity, beyond what is needed for network reliability, would be leased to third parties for contestable activities.
- Only the share of battery costs delivering network benefits, typically around 5-20%, is allocated to the RAB, with the remainder funded by third parties. DNSPs are not seeking full RAB funding of batteries.
- There is no need for DNSPs to seek a waiver for battery installations, increasing efficiency.

This model improves network utilisation, accelerates customer benefits, and reduces regulatory burden—without undermining competitive markets.

	What we are proposing...	What we are <i>NOT</i> proposing...
RAB	Only the share of DBESS costs delivering network benefits (typically 5-20%) would enter the RAB	We are <i>not</i> proposing full RAB funding of DBESS
Energy trading	DNSPs would enable third parties to trade using leased capacity	We are <i>not</i> proposing DNSPs participate directly in energy trading
Extent of change	A modest extension to allow an existing model to continue without a ring-fencing waiver	We are <i>not</i> proposing novel commercial models or a fundamental change in role

We recognise others may have different views

We recognise that some stakeholders may argue that the current waiver approach reflects established regulatory principles aimed at preserving competition. The requirement of case-by-case approval can provide a degree of regulatory caution, particularly where business models are still emerging.

However, as storage technologies and business models have matured, this level of caution is increasingly difficult to justify. A framework based on discretionary, case-by-case approvals does not provide clear or consistent signals for investment and operational decision-making. It also increases administrative burden and risks constraining the efficient and timely use of assets.

Stakeholder questions

- Do stakeholders consider that electricity distributors should be able to lease spare capacity in DNSP-led storage without requiring an AER waiver?

3 Evolving energy services

Overview

With the rapid changes the Australian energy system is currently undergoing, there is a range of new services the NSW DNSPs may provide over the 2029-34 period.

These services may differ in each network or may not be provided in all NSW distribution networks. Also, different DNSPs may seek to classify similar evolving energy services in different ways, due to the different characteristics of each network and their customers.

Examples of evolving energy services

Two examples of evolving energy services the NSW DNSPs are considering providing over the 2029-34 period include:

- DSO services, which involve the active management and balancing of energy flows on the network to maximise the utilisation of our infrastructure and ensure grid stability.
- Data centre connections to the shared electricity network.

As the NSW DNSPs prepare our F&A requests for the AER ahead of submission in October 2026, there may also be other evolving energy services we consider and engage with stakeholders on.

DSO services

Federal DCCEE's CER Taskforce recommended to Energy Ministers in December 2025 that DNSPs are formalised as DSOs.¹⁵ While this role still needs to be further considered and established as a regulatory obligation on DNSPs, it is anticipated that NSW DNSPs would be performing DSO functions by the 2029-34 regulatory period to provide distribution services safely and reliably.

The CER Taskforce noted the core functions of a DSO would include:

- **Active system management:** Actively managing network assets, CER and flexible loads to achieve safe, reliable and efficient operation of the distribution system in a two-way power flow environment.
- **Enabling CER flexibility:** Employing distribution level tools, mechanisms, and market interfaces to value, incentivise, procure and coordinate energy and flexibility services from CER.
- **Transmission and distribution coordination:** Active coordination between system operators and network operators to enable operational visibility and data exchange required for operations, and for system security and reliability.
- **Integrated distribution planning:** Performing long-term distribution system planning, in consultation with the system operator (the Australian Energy Market Operator) in the National Electricity Market and relevant transmission network, as an integral part of advanced whole-of-system planning.

As noted by the CER Taskforce, DNSPs are already performing a range of these DSO functions. We also note as the DSO role is further scoped and defined, there may be additional functions which form part of this role.

For instance, Ausgrid's Community Power Network pilot, which has been approved by the AER under the Regulatory Sandbox, can be considered as a way to test and trial DSO functions. The Community Power Network represents a new way of operating the network to better store, share and use locally generated energy across a community. This will be via the coordination of solar, storage and demand by Ausgrid to improve utilisation of the distribution system and help more customers save from renewable energy. Learnings from this pilot will help to further improve our understanding of how the DSO role can benefit customers by improving network efficiency, increasing hosting capacity, and deferring future augmentation needs.

¹⁵ DCCEE, ['Redefining roles for market and power systems operations \(M3/P5\) final report'](#) (16 December 2025), p xiii.

For each of the services a DSO provides, there will need to be consideration of how these services should be classified and how these services should be funded. As the DSO role is still being defined, further time will be needed to consider service classification for this role.

Data centre connections

Data centres differ from traditional load growth due to their scale, clustering, and potential to drive lumpy upfront investment. They also raise specific questions around cost allocation and the management of credit risk on the general customer base.

Data centre connections can also put downward pressure on customer bills across the wider customer base. Data centre customers pay standard charges for their use of upstream network infrastructure, ensuring they make an ongoing contribution to the fixed costs of the shared network. This improves utilisation of existing assets and reduces the amount of revenue that needs to be recovered from the broader customer base under the revenue cap.¹⁶

As the NSW DNSPs prepare for the 2029–34 regulatory period, there is an opportunity to consider whether the existing regulatory framework remains fit for purpose for these types of major connections. Growth in data centre demand is expected over the coming years, making it timely to consider whether the current arrangements continue to provide the most appropriate balance between efficiency, customer protections and cost recovery, or whether alternative service classification approaches could deliver improved outcomes.

We also note the NSW and Federal Government are actively considering how data centre connections to electricity networks should be regulated, with the Prime Minister indicating national standards for large data centres would be legislated next year to ensure data centres “pay their full share of connection costs so energy bills are not impacted” and “reduce power when needed to strengthen the grid”, amongst other requirements.¹⁷ The majority of Ministers attending the most recent Energy & Climate Ministers meeting on 28 July 2026 supported, this approach.¹⁸

Under the current framework, there is no standalone classification for data centres. Instead, different components of a connection are classified based on whether the assets are shared or dedicated. For the NSW DNSPs, generally this means:

- **SCS (shared assets):** assets that serve multiple users, such as substations and upstream feeders, form part of the shared network and are funded through the RAB; and
- **Dedicated customer assets:** dedicated connection assets are typically funded by the connecting customer, with costs paid upfront. These assets are unregulated as they are solely funded and used by the connecting customer.

The SCS component is supported by established protections around large customers, including Individually Calculated Tariffs (**ICTs**) and financial safeguards like bank guarantees, which ensure that costs are recovered from the connecting customer and limit exposure to credit and stranded asset risk. Looking ahead, it may be appropriate to consider whether other service classifications might also be appropriate as major load connections increase.

As data centre connections and the regulatory framework for them continue to evolve, the NSW DNSPs are actively considering how services relating to the provision of data centre connections to shared connection assets should be classified to support timely connection to the network, while minimising stranded asset risks for other customers.

¹⁶ Under a SCS revenue cap, the AER sets the NSW DNSP's total allowed revenue each year. That revenue must be recovered from customers through network tariffs. When electricity throughput increases (e.g. from new major connections), the same amount of revenue is spread over more units of energy, which reduces the per-unit network price. Higher utilisation of the existing network therefore translates directly into lower average network charges for all customers.

¹⁷ Prime Minister of Australia, Media release, 'AI in Australia's interests' (15 July 2026). In NSW, Infrastructure NSW is considering how the NSW Government approaches data centre investment (see Infrastructure NSW's March 2026 '[Data Centre Consultation Paper](#)') and the NSW Parliament's Public Works and Accountability Committee is currently conducting an inquiry on data centres in NSW which includes impacts on electricity networks (further details are available [here](#)).

¹⁸ Energy and Climate Change Ministerial Council, [Meeting Communiqué](#), 28 July 2026.

Stakeholder questions

4. Do stakeholders have views they would like to share in relation to these or any other evolving energy services?