

Draft decision on Electricity Transmission Determination for Basslink 2026 to 2030

(1 July 2026 to 30 June 2030)

**Attachment 5
Capital expenditure
sharing scheme**

September 2025

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Note

This attachment forms part of the Australian Energy Regulator's (AER's) draft decision on the transmission determination that will apply to Basslink for the 2026–30 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Opening regulatory asset base

Attachment 2 – Capital expenditure

Attachment 3 – Operating expenditure

Attachment 4 – Efficiency benefit sharing scheme

Attachment 5 – Capital expenditure sharing scheme

Attachment 6 – Service target performance incentive scheme

Attachment 7 – Pricing methodology

Attachment 8 – Negotiated services

Attachment 9 – Pass through events

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5 Capital expenditure sharing scheme

The capital expenditure sharing scheme (CESS) provides financial rewards for network service providers (NSP) whose capital expenditures (capex) becomes more efficient and financial penalties for those that become less efficient. Customers benefit from improved efficiency through lower regulated prices. This is the first time we are applying the CESS to Basslink.

This attachment sets out our decision for application of the CESS for Basslink in the 2026–30 regulatory control period.

The CESS approximates efficiency gains and efficiency losses by calculating the difference between forecast and actual capex. It shares these gains or losses between service providers and consumers.

The version of the CESS in force when Basslink submitted its proposal was the CESS updated in April 2023.¹ In August 2024, after Basslink submitted its proposal, the Australian Energy Market Commission (AEMC) published an amending rule for managing Integrated System Plan project uncertainty through targeted ex post reviews.² In light of the rule change, we commenced a Capital Expenditure Incentive Guideline review³ in February 2025. A draft Capital Expenditure Incentive Guideline was released on 16 May 2025, and the final Capital Expenditure Incentive Guideline update was published on 26 August 2025. Therefore, the version of the CESS in force⁴ is the CESS updated in August 2025.⁵

Our draft decision is to apply the CESS updated in August 2025 to Basslink. The key difference between the CESS in force when Basslink submitted its proposal and the CESS updated in September 2025 concerns the application of the CESS following an ex-post review.

The CESS in the 2025 Capital Expenditure Incentive Guideline applies as follows:

- We calculate the cumulative efficiency gains or losses for the current regulatory control period in net present value terms. To do this we subtract the NSP's actual capex from its capex allowance in each year of the regulatory control period.
- We apply a sharing ratio of 30 per cent to the cumulative underspend or overspend to work out what the service provider's share of the underspend or overspend should be. We apply a lower sharing factor of 20 per cent to any underspend amount greater than 10 per cent of the approved forecast capital expenditure allowance.

¹ AER, [Final decision - Capital expenditure incentive guideline](#), 28 April 2023.

² AEMC, [Managing ISP project uncertainty through targeted ex post reviews: Final determination](#), 1 August 2024.

³ AER, [Capital Expenditure Incentive Guideline Review - Consultation Paper](#), 21 February 2025.

⁴ NER, cl. 6A.5A(c).

⁵ AER, [Capital Expenditure Incentive Guidelines](#), August 2025.

- We calculate the CESS payments taking into account the financing benefit or cost to the service provider of the underspend or overspend.⁶ We can also make further adjustments to account for deferral of capex and ex post exclusions of capex from the regulatory asset base (RAB).⁷
- The CESS payments will be added or subtracted to the service provider's regulated revenue as a separate building block in the next regulatory control period.
- CESS adjustments may be applied following an ex-post review. We will consider applying this mechanism in limited circumstances. Considerations include but are not limited to where there is an efficient increase in an NSP's scope of works, and the incurred capex is not accounted for in a contingent project application, cost pass through application or a reopener.⁸

5.1 Our draft decision

5.1.1 Application of CESS in the 2026–30 regulatory control period

Our draft decision is to apply the CESS as set out in the 2025 Capital Expenditure Incentive Guideline to Basslink for the 2026–30 regulatory control period.⁹

5.2 Basslink's proposal

5.2.1 Application of CESS in the 2026–30 regulatory control period

Basslink proposed to apply the CESS in the 2026–30 regulatory control period.¹⁰

5.3 Assessment approach

Under the National Electricity Rules (NER) we must decide:

- whether to apply any applicable CESS to Basslink in the 2026–30 regulatory control period and how any applicable CESS will apply;¹¹

In deciding whether to apply a CESS to Basslink for the 2026–30 regulatory control period, and the nature and details of any CESS that is to apply, we must:¹²

- make that decision in a manner that contributes to the capex incentive objective¹³
- take into account the CESS principles,¹⁴ the capex objectives and if relevant the

⁶ We calculate benefits as the benefits to the service provider of financing the underspend since the amount of the underspend can be put to some other income generating use during the period. Losses are similarly calculated as the financing cost to the service provider of the overspend.

⁷ AER, [Capital Expenditure Incentive Guidelines](#), August 2025, p 9.

⁸ AER, [Capital Expenditure Incentive Guidelines](#), August 2025, pp 11–14.

⁹ AER, [Capital Expenditure Incentive Guidelines](#), August 2025.

¹⁰ APA Group, *Basslink Transmission Revenue Proposal*, September 15, 2023, p 65.

¹¹ NER, cl. 6A.14.1(5A) and 6A.6.5A(e)(1).

¹² NER, cl. 6A.6.5A(e).

¹³ NER, cl. 6A.6.5A(e)(3); the capex incentive objective is set out in clause 6A.5A(a) of the NER.

¹⁴ NER, cl. 6A.6.5A(e)(4)(i); the CESS principles are set out in cl. 6A.6.5A(c).

operating expenditure (opex) objectives,¹⁵ the interaction with other incentive schemes,¹⁶ and the circumstances of the service provider.¹⁷

Broadly, the capex incentive objective is to only roll capex into the RAB if it reasonably reflects the capex criteria, so that consumers only fund capex that is efficient and prudent.

5.3.1 Interrelationships

The CESS relates to other incentives schemes that apply to Basslink. Related schemes include the efficiency benefit sharing scheme (EBSS) for opex, and the service target performance incentive scheme (STPIS). We aim to incentivise network service providers to make efficient decisions on when and what type of expenditure to incur and to balance expenditure efficiencies with service quality.

5.4 Reasons for draft decision

5.4.1 Application of CESS in the 2026–30 regulatory control period

Consistent with APA's proposal, our draft decision is to apply the CESS to Basslink in the 2026-30 regulatory control period.

Our final decision for the review of incentive schemes for networks, and our final decision for the 2025 Capital Expenditure Incentive Guideline¹⁸ set out that the CESS, amongst other things:

- provides network businesses with incentives to pursue efficiency gains throughout the regulatory control period
- complements the ex-post review framework by providing an additional incentive to ensure that any overspends are prudent and efficient; and
- complements the incentive schemes for operating expenditure and for service standards.

Basslink has developed capital expenditure forecasts that we have closely scrutinised to come to our draft decision on capex for the 2026-30 regulatory control period (see Attachment 2. The CESS provides incentives for Basslink to minimise capex, seek further efficiencies when compared to any approved capex forecast and minimise any overspends (should they occur) to what is prudent and efficient. As such, applying the CESS to Basslink means that consumers should benefit from lower capex through a lower RAB and lower prices.

¹⁵ NER, cl. 6A.6.5A(e)(4)(i) and 6A.6.5A(d)(2); the capex objectives are set out in cl. 6A.6.7(a); the opex objectives are set out in cl. 6A.6.6(a).

¹⁶ NER, cl. 6A.6.5A(e)(4)(i) and cl. 6A.6.5A(d)(1).

¹⁷ NER, cl. 6A.6.5A(e)(4)(ii).

¹⁸ AER, *Final decision - Review of incentive schemes for networks - 28 April 2023*, April 2023, pp. 14-22; AER, [Capital Expenditure Incentive Guidelines](#), August 2025.

Glossary

Term	Definition
AER	Australian Energy Regulator
Capex	Capital Expenditure
CESS	Capital Expenditure Sharing Scheme
MNSP	Market Network Service Provider
NER	National Electricity Rules
NSP	Network Service Provider
RAB	Regulatory Asset Base
STPIS	Service target performance incentive scheme
TNSP	Transmission Network Service Provider