

# Draft decision

**Australian Gas Networks (SA) access  
arrangement 2026 to 2031**  
(1 July 2026 to 30 June 2031)

**Attachment 6 – Capital expenditure sharing  
scheme**

**November 2025**

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# List of attachments

This attachment forms part of our draft decision on the access arrangement that will apply for period of 1 July 2026 to 30 June 2031 (2026–31 period) for Australian Gas Networks (SA) (AGN). It should be read with all parts of our draft decision.

The draft decision includes the following documents:

- Overview
- Attachment 1 – Capital base, regulatory depreciation and Corporate income tax
- Attachment 2 – Capital expenditure
- Attachment 3 – Operating expenditure
- Attachment 4 – Demand
- Attachment 5 – Reference services, tariffs and non-tariff components
  - Includes: Services covered by the access arrangement, reference tariff settings, reference tariff variation mechanism, and non-tariff components
- Attachment 6 – Capital expenditure sharing scheme
- Attachment 7 – Efficiency carryover mechanism

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## 6 Capital expenditure sharing scheme

In this attachment, we outline our assessment of AGN's capital expenditure sharing scheme (CESS) for the 2026–31 access arrangement period (2026–31 period). This includes CESS rewards or penalties to be applied next period based on AGN's performance this period.

The CESS is designed to incentivise efficient spending on capital expenditure (capex) by rewarding Network Service Providers (NSP) for lowering their capex below the amount approved for the access arrangement period. The rewards are shared between the NSPs and consumers.

To ensure lower capex does not compromise service standards, the reward amounts are modified by a contingent payment factor (CPF). If service standards fall below target levels, reward amounts are reduced. Below a certain service standard threshold, rewards are reduced to zero. Conversely, the CESS will lead to a penalty if the NSP spends above its approved capex forecast. The CPF does not apply to penalties, so if a penalty is incurred, it will not be reduced.

### 6.1 Draft decision

#### 6.1.1 CESS amounts from the 2021–26 period

AGN is expected to spend less capex in the 2021–26 access arrangement period than our forecast capex in the final decision for the 2021–26 access arrangement period. This results in a CESS reward being added to AGN's revenue in the 2026–31 access arrangement period. Our draft decision is to not approve AGN's proposed CESS revenue increment of \$17.4 million (\$2025–26). Our draft decision is an alternative CESS revenue increment of \$17.5 million. The difference between our decision and AGN's proposal is that we have updated the consumer price index (CPI) and real vanilla weighted average cost of capital (WACC) figures.<sup>1</sup> Table 6.1 outlines AGN's proposal and our draft decision.

**Table 6.1 Our draft decision on AGN's CESS increments (\$million, 2025–26)**

|                    | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | Total |
|--------------------|---------|---------|---------|---------|---------|-------|
| AGN's proposal     | 3.48    | 3.48    | 3.48    | 3.48    | 3.48    | 17.42 |
| AER draft decision | 3.49    | 3.49    | 3.49    | 3.49    | 3.49    | 17.46 |

Source: AER analysis. AGN, *AGN SA, Attachment 12.2\_CESS Model\_20250701*. Numbers may not add up due to rounding.

#### 6.1.2 Application of CESS in the 2026–31 period

We accept AGN's proposal to retain a CESS for the 2026–31 access arrangement period. However, we require AGN to make the following revisions:

- apply a tiered sharing factor to its CESS mechanism and voluntary changes to CESS reward or penalty if applicable, as per the AER's update to the CESS mechanism in

<sup>1</sup> Attachment 1 on the capital base sets out our CPI draft decision, while the Overview details our WACC draft decision.

August 2025. The details of this update and our reasons are given in sections 6.5.2.1 and 6.5.2.2

- update the Asset Performance Index (API) targets.

## 6.2 AGN's proposal

### 6.2.1 CESS amounts from the 2021–26 access arrangement period

AGN proposed a \$17.4 million (\$2025–26) reward be added to its revenue in the 2026–31 access arrangement period.<sup>2</sup>

AGN has developed measures to monitor service performance. Five target measures are used to calculate AGN's API. These are:

- unplanned System Average Interruption Frequency Index (SAIFI) (weighting 25%)
- unplanned System Average Interruption Duration Index (SAIDI) (weighting 25%)
- mains leaks (weighting 42.4%)
- service leaks (weighting 4.9%)
- meter leaks (weighting 2.7%).<sup>3</sup>

Performance targets for each measure were set in our final decision for 2021–26 using five years of historical data. The performance targets are weighted to produce the API. AGN's actual performance will be measured against the API. Its reward for reducing capex will be scaled down if it does not meet this performance standard in a linear scale from 100 per cent (where it will receive a full benefit) to 80 per cent (where it will receive no benefit).<sup>4</sup> So, for example, if it achieves 90 per cent on the API, this will scale down its CESS payment by 50 per cent.

The CPF is used to scale down rewards if service performance is less than the target level. Consistent with the current access arrangement period CESS, the threshold of performance below which no reward is payable to AGN for an underspend is an index score of 80 (base is 100). As seen in Table 6.2, owing to strong performance against its most heavily weighted targets, AGN has an API of 123.9, leading to a CPF of 100. This means AGN will receive 100% of its revenue increment as a reward.

**Table 6.2 AGN's reported performance and CPF**

| Measures        | Actual | Target | Index  | Weight | Contribution |
|-----------------|--------|--------|--------|--------|--------------|
| Unplanned SAIFI | 0.58   | 0.59   | 100.86 | 25%    | 25.2         |
| Unplanned SAIDI | 387.74 | 307.04 | 73.72  | 25%    | 18.4         |
| Mains leaks     | 0.04   | 0.11   | 163.23 | 42.4%  | 69.2         |
| Service leaks   | 1.83   | 3.76   | 151.15 | 4.9%   | 7.4          |

<sup>2</sup> AGN, AGN SA, *Attachment 12.2\_CESS Model\_20250701*, July 2025.

<sup>3</sup> AGN, AGN SA 2026–31 *Final Plan*, July 2025, pp. 124–125.

<sup>4</sup> AGN, AGN SA 2026–31 *Final Plan*, July 2025, pp. 124–125.

| Measures                        | Actual | Target | Index  | Weight | Contribution |
|---------------------------------|--------|--------|--------|--------|--------------|
| Meter leaks                     | 7.97   | 12.35  | 135.45 | 2.7%   | 3.7          |
| <b>Asset Performance Index</b>  | 123.9  |        |        |        |              |
| <b>Contingent Payment Index</b> | 100%   |        |        |        |              |

Source: AGN, AGN SA, Attachment 12.2\_CESS Model\_20250701.

## 6.2.2 Application of CESS in the 2026–31 access arrangement period

AGN proposes to continue using a CESS into the 2026–31 access arrangement period. It proposes to update the CESS from how it was implemented in the 2021–26 access arrangement period.

### 6.2.2.1 Contingent payment index targets

As part of its CPF, AGN has adopted measures to monitor service performance. AGN proposes to maintain the measures and weightings it used during the 2021–26 access arrangement period. It has formulated its targets using the average of the past three years of historical data and one year of estimates. Table 6.3 outlines AGN's proposed performance targets.

**Table 6.3 AGN's actual performance and AER's draft decision targets for 2026–31**

|                 | Target | Weight |
|-----------------|--------|--------|
| Unplanned SAIFI | 0.59   | 25%    |
| Unplanned SAIDI | 307.04 | 25%    |
| Mains leaks     | 0.11   | 42.4%  |
| Service leaks   | 3.76   | 4.9%   |
| Meter leaks     | 12.35  | 2.7%   |

Source: AGN, AGN SA, Attachment 12.2\_CESS Model\_20250701; AGN, AGN SA 2026–31 Final Plan, July 2025, p. 125.

## 6.3 Assessment approach

A full access arrangement may include (or we may require it to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.<sup>5</sup> Incentive mechanisms may provide for carrying over increments for efficiency gains, or decrements for efficiency losses, from one access arrangement period into the next.<sup>6</sup> An incentive mechanism must be consistent with the revenue and pricing principles.<sup>7</sup>

<sup>5</sup> NGR, r. 98(1).

<sup>6</sup> NGR, r. 98(2).

<sup>7</sup> NGR, r. 98(3).

We consider the following revenue and pricing principle is most relevant for assessing AGN's proposed incentive scheme:

'A scheme pipeline service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides. The economic efficiency that should be promoted includes—

(a) efficient investment in, or in connection with, a pipeline with which the service provider provides reference services; and

(b) the efficient provision of pipeline services; and

(c) the efficient use of the pipeline.'<sup>8</sup>

## 6.4 Submissions on the proposal

We received one submission on the CESS from the South Australian Reference Group (SARG) Review Panel. The SARG supported the continue application of CESS for 2026–31.

## 6.5 Reasons for the draft decision

### 6.5.1 CESS amounts from the 2021–26 period

We consider AGN's proposed reward of \$3.5 million per year is consistent with the CESS mechanism in its 2021–26 access arrangement.

As AGN performed strongly against its CPF targets, its CPF is 100, meaning it will receive 100% of its reward. However, we have updated the CESS calculations to reflect our draft decision on CPI and WACC. These updates result in a CESS reward of \$17.5 million for our draft decision.

For its revised proposal, we require AGN to use up-to-date data on CPI, WACC, reported performance measures, and reported capex.

### 6.5.2 Application of the CESS in the 2026–31 period

We accept AGN's proposal to apply the CESS in the 2026–31 access arrangement period, however, we require AGN to make a number of revisions including introducing a tiered sharing factor and voluntary changes to the CESS consistent with the CESS guideline and provide updated API targets.

#### 6.5.2.1 The sharing factor

The CESS includes a sharing factor or ratio, which determines how an efficiency gain/loss is shared between the NSP and its customers. That is, if the NSP underspends/overspends, it will only receive certain percentage of that underspend/overspend as a CESS reward/penalty. That percentage is the sharing factor.

Following a review in 2023, the CESS mechanism was updated, most relevantly the sharing factor. Previously, the sharing factor was 30% without variation for both underspends and

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<sup>8</sup> NGL, s. 24(3).

overspends. The updated guideline introduces a tiered sharing factor for underspends. 30% will apply to any underspend amount up to and including 10% of the approved capex forecast; and 20% will apply to any underspend amount greater than 10% of the approved forecast. For overspends, the sharing factor remains a constant 30%. In short, the updated scheme reduces the rewards when a network business outperforms against its approved forecast by more than 10% but maintains the same penalties for underperformance. This asymmetry is intended to reduce the costs of the CESS to consumers while maintaining strong incentives for efficiency.<sup>9</sup>

AGN's proposed access arrangement does not include the updated sharing factor.<sup>10</sup>

We require AGN to update its proposed access arrangement in its revised proposal to incorporate the new tiered sharing factor as described in the updated CESS guidelines.

If AGN does not wish to include the new tiered sharing factor, it should provide its reasoning in its revised proposal.

#### 6.5.2.2 Voluntary changes to the CESS reward or penalty

The CESS guidelines allow an NSP to propose to vary its CESS reward (or penalty) to voluntarily reduce its CESS reward (or increase its CESS penalty), as this may directly benefit consumers.<sup>11</sup>

We require AGN to update its proposed access arrangement in its revised proposal to incorporate this CESS guideline mechanism. If AGN does not wish to include this in its access arrangement, it should provide its reasoning in its revised proposal.

#### 6.5.2.3 Contingent payment index targets

AGN has provided contingent payment index targets based on three years of historical and one year of estimated data for 2024–25.

We require AGN to provide updated API targets in its revised proposal with associated calculations and analysis. This should be consistent with its approach for the current period.

## 6.6 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 6.3.

**Table 6.3 CESS revisions**

| Revision     | Amendments                                                                                                                                                                                           |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revision 6.1 | Make revisions necessary to update CPI, real vanilla WACC, reported performance inputs, and reported capex inputs in the calculation of the CESS revenue increment, in line with our draft decision. |

<sup>9</sup> AER, *AER Capital Expenditure Incentive Guidelines* – August 2025, pp. 4–5.

<sup>10</sup> AGN, *SA Access Arrangement*, 1 July 2026 to 30 June 2031, pp. 22–24.

<sup>11</sup> AER, *AER Capital Expenditure Incentive Guidelines* – August 2025, p. 6.

|              |                                                                                                          |
|--------------|----------------------------------------------------------------------------------------------------------|
| Revision 6.2 | Incorporate the tiered sharing factor as described in the updated CESS guidelines.                       |
| Revision 6.3 | Incorporate voluntary changes to the CESS reward or penalty as described in the updated CESS guidelines. |
| Revision 6.4 | Provide updated API targets with associated calculations and analysis.                                   |

# Glossary

| Term  | Definition                                  |
|-------|---------------------------------------------|
| AER   | Australian Energy Regulator                 |
| API   | asset performance index                     |
| capex | capital expenditure                         |
| CESS  | capital expenditure sharing scheme          |
| CPF   | contingent payment factor                   |
| CPI   | consumer price index                        |
| NGL   | National Gas Law                            |
| NGO   | National Gas Objective                      |
| NGR   | National Gas Rules                          |
| NSP   | network service provider                    |
| SAIDI | System Average Interruption Duration Index  |
| SAIFI | System Average Interruption Frequency Index |
| WACC  | weighted average cost of capital            |