

29 October 2025

Dr Kris Funston  
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GPO Box 3131, Canberra ACT 2601

Dear Kris

## **Re: Framework and Approach – ElectraNet 2028–2033 Regulatory Determination**

The purpose of this letter is to provide initial input to the AER's framework and approach paper in relation to ElectraNet's upcoming revenue determination for the regulatory period of 1 July 2028 to 30 June 2033. The Rules require the AER to publish its framework and approach paper for this purpose by 31 July 2026.

The following comments address each element of the framework and approach paper in turn and outline the basis on which each of the guidelines and requirements is proposed to apply.

### **Service Target Performance Incentive Scheme (STPIS)**

The STPIS provides a financial incentive to maintain and improve network performance based on various different components. It is expected that the prevailing version of the STPIS (version 6) will be applied to ElectraNet.

We note that the AER recently completed their review of the STPIS in April 2025 and concluded that whilst some small amendments were required to the Network Capability Component and the Service Component of the STPIS, a suspension of the Market Impact Component (MIC) was required as it was no longer fit for purpose.

We acknowledge that the AER have submitted a rule change proposal to the AEMC to allow Transmission Network Service Providers (TNSPs) and the AER to apply to have the revised STPIS apply at an earlier stage than the next revenue determination. ElectraNet support this position and look forward to engaging with both the AEMC and the AER to ensure that the MIC is suspended as soon as possible.

We are also cognisant of the recommendation in the recent draft report from the *National Electricity Market wholesale market settings review* that a revised MIC be developed, and that the AER intends to form a working group to pursue this endeavour. ElectraNet looks forward to engaging in this process with the AER.

At this stage, ElectraNet does not propose any variations to the remaining elements of the scheme.

### **Operating Expenditure Efficiency Benefit Sharing Scheme (EBSS)**

ElectraNet supports the continued application of the EBSS as a key incentive mechanism to drive efficiencies in operating expenditure over time. It is expected that the prevailing version of the EBSS (version 2) will therefore be applied to ElectraNet in the upcoming period.

However, we consider it important to recognise the changing nature of expenditure, particularly the increasing transition from on-premise to cloud based software-as-a-service (SaaS) solutions. These arrangements, which were previously capitalised, are now classified as operating expenditure under accounting standards. This is particularly true considering the ever increasing importance and requirements relating to cyber security.

This shift creates a structural misalignment with the intent and operation of the EBSS. As expenditure that was once treated as capex now enters the opex baseline, movements in expenditure levels can trigger EBSS rewards or penalties unrelated to genuine efficiency improvements or declines. Rather than reflecting operational performance, these outcomes are due to the timing and profile of expenditure. Moreover, these changes are not captured in standard benchmarking output metrics, meaning they can distort apparent efficiency trends and complicate comparability over regulatory periods.

In this context, ElectraNet considers it appropriate for the AER to continue exploring how the EBSS framework should evolve to reflect these changes. This may include targeted adjustments or the application of judgement to ensure that EBSS outcomes reflect true operational efficiency rather than the accounting treatment of technology solutions.

ElectraNet would be happy to discuss these issues further with the AER as appropriate.

### Capital Expenditure Sharing Scheme (CESS)

The CESS aims to provide incentive for efficiency improvements in capital expenditure and provides for ex post reviews of any over-spends of the capital expenditure allowance as part of the Capital Expenditure Incentive Guideline (CEIG). The CEIG version 4 was developed after the AEMC's amending rule on *managing ISP [Integrated System Plan] project uncertainty through targeted ex post reviews* published in August 2024. As part of the review of this guideline, we note the amendments relating to the ex post review process and to the CESS in relation to ISP projects which raises several areas of consideration for ElectraNet.

#### Project Energy Connect (PEC)

We note that the transitional requirements of the AEMC rule change specifically incorporate those ISP projects already subject to the CESS such as PEC. We further note that the South Australian portion of PEC was completed and stage 1 energised in January 2025, prior to the advent of the revised guideline. Therefore we consider that the AER should not apply any penalties under a revised incentive regime to a project that completed prior to the scheme's revision.

#### Northern Transmission Project (NTx)

ElectraNet is currently engaging in Early Works on as denoted in the recent Contingent Project Application (CPA) 1a approved by the AER on NTx. NTx was identified in AEMO's 2024 ISP as an actionable project to strengthen transmission connections between the Mid North, Greater Adelaide and the Upper Spencer Gulf (Whyalla).

At the current time, ElectraNet does not have a view on the form of CESS which should apply to NTx. We consider it likely that this will be a significant point of engagement with our Consumer Advisory Panel (CAP) and the AER as we approach the CPA2 phase of the project. We consider it

likely that, due to the nature and size of the project, a modified CESS may be more appropriate than a standard application of the incentive arrangement.

We therefore consider that expenditure on NTx, and any other future ISP projects, should be held separate from business as usual capital expenditure and the appropriate incentive scheme determined as part of the AER's decisions on the relevant CPAs.

### **Business as Usual (BAU) capital expenditure**

It is expected that the prevailing version of the CESS as outlined in the Capital Expenditure Incentive Guideline (CEIG) version 4 will be applied to ElectraNet's business as usual capital expenditure.

ElectraNet would be pleased to engage further with the AER in relation to these issues.

### **Small Scale Incentive Scheme**

The Rules allow for the AER to develop a small-scale incentive scheme applicable to TNSPs. This allows the AER to test innovative approaches to incentives to encourage further improvements in the delivery of network services for the long-term benefit of electricity consumers, in a manner that complements the existing incentive arrangements in place.

ElectraNet notes that the AER has not chosen to develop such an incentive scheme to date, and therefore no such scheme would presently apply for the purposes of ElectraNet's forthcoming regulatory control period.

However, should the AER determine such a scheme to apply, ElectraNet would be pleased to discuss the potential merits and basis of such a scheme in the long-term interests of customers.

### **Expenditure Forecast Assessment Guideline**

The Expenditure Forecast Assessment Guideline establishes the basis on which the AER will assess capital and operating expenditure forecasts, including associated information requirements. It is expected that the Guideline as currently in force will apply to ElectraNet.

ElectraNet accepts the continued application of the prevailing guidelines and assessment techniques, while noting that clear limitations exist with the current AER TNSP benchmarking methodology and the extent to which this information can meaningfully be applied in the assessment of expenditure across transmission businesses, as we have raised over the years. ElectraNet looks forward to further engaging with the AER in relation to relevant comparators of performance reflecting the specific challenges and circumstances facing South Australia's transmission network.

### **Basis of Depreciation**

The Rules allow the AER to determine whether the depreciation applied in establishing the Regulatory Asset Base at the end of the control period should be based on forecast or actual capital expenditure.

The AER's approach has generally been to apply forecast depreciation, unless circumstances warrant departing from this approach. At this stage ElectraNet is not seeking to depart from this approach for the next regulatory control period.

## Demand Management Innovation Allowance Mechanism (DMIAM)

The purpose of this mechanism is to provide TNSPs with funding for research and development in demand management projects that have the potential to reduce long-term network costs. Appropriately applied, the mechanism delivers long-term benefits to customers through better management of energy demand.

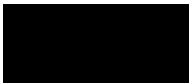
In the 2023–2028 determination, the DMIAM was applied to ElectraNet. To date, and consistent with the information supplied in our annual returns to the AER each September, we have not identified any suitable projects for DMIAM funding. We continue to work with external stakeholders to identify projects that may meet the criteria over the remaining years of the period.

Our current position is that, should we remain unable to identify suitable projects, it would not be prudent to seek a further round of DMIAM funding while returning unused funds from the current period. Conversely, if suitable projects are identified and we have visibility of initiatives that could be progressed in the next regulatory period, it would be equally imprudent to lose the opportunity to innovate and proactively manage demand, particularly given expected increases in network demand.

On balance, we consider the most appropriate position is to defer a decision on whether the DMIAM should apply in the 2028–2033 period until more information is available. We therefore propose to confirm our position as part of the regulatory proposal due to the AER on 31 January 2027.

We would be happy to discuss this further with the AER over the coming months.

Yours sincerely



Jeremy Tustin

**Head of Regulation and Corporate Affairs**

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