Final decision

AusNet Services electricity distribution determination
1 July 2026 – 30 June 2031

Attachment 6 – Capital expenditure sharing scheme

April 2026

AUSTRALIAN ENERGY REGULATOR

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6 Capital expenditure sharing scheme

The capital expenditure sharing scheme (CESS) provides financial rewards for network service providers (NSP) whose capital expenditures (capex) become more efficient, and financial penalties for NSPs whose capex become less efficient. Customers benefit from improved efficiency through lower regulated prices.

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

The CESS works as follows:

- we calculate the cumulative efficiency gains or losses for the current regulatory control period in net present value terms
- we apply the sharing ratio of 30% to all efficiency losses, and a tiered rate for efficiency gains, to work out what the service provider's share of the underspend or overspend should be[1]
- we calculate the CESS payments taking into account the financing benefit or cost to the service provider of the underspend or overspend.[2] We can also make further adjustments to account for deferral of capex and ex post exclusions of capex from the regulatory asset base (RAB).[3]

The CESS payments will be added to or subtracted from the service provider's regulated revenue as a separate building block in the next regulatory control period.

The nature and details of the CESS that is applicable to the relevant regulatory control period is decided when making our determination on a forecast basis.[4] So, for the current regulatory period, the CESS set out in the 2013 Capital Expenditure Incentive Guidelines (version 1) will apply in the building block model.[5] For the upcoming 2026–31 regulatory control period, the 2025 Capital Expenditure Incentive Guidelines (version 4) will be applied.[6]

We consider in addition to greater incentives to improve capex efficiency, the CESS provides a consistent incentive to incur capex efficiently during a regulatory control period and encourages more efficient substitution between capex and operating expenditure (opex).

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1 The tiered rate calculation for efficiency gains will apply a 30% sharing ratio for any underspend amount up to and including 10% of the approved forecast capex allowance, while any amount greater will incur a 20% sharing ratio.

2 We calculate benefits as the benefits to the service provider of financing the underspend since the amount of the under-spend 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.

3 The capex incentive guidelines outline how we may exclude capex from the RAB and adjust the CESS payment for deferrals. AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, August 2025, pp. 9–17.

4 NER, cl. 6.12.1(i).

5 AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, November 2013.

6 AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, August 2025.

This attachment sets out our final decision for the determination of the revenue impacts as a result of the CESS applying from the 2021–26 regulatory control period and the application of the CESS for AusNet in the 2026–31 regulatory control period.

6.1 Final decision

6.1.1 CESS revenue increments from the 2021–26 regulatory control period

Our final decision is to apply a CESS revenue decrement of $167.5 million ($2025–26) across the 2026–31 regulatory control period. This CESS revenue decrement is calculated using the CESS from the 2021–26 regulatory control period and the corresponding CESS carryover true-up for 2020. It is a $32.8 million larger decrement than AusNet's forecast CESS revenue decrement of $134.7 million ($2025–26).

The difference between our calculations and AusNet's revised proposal is due to:

- an update to the capex inputs to reflect actual expenditure and changes to forecast
- more recent inflation figures
- an update to weighted average cost of capital (WACC) input information.

The CESS decrement arises from an overspend in total capex to which the CESS applies against the forecast for the 2021–26 period. Our final decision on the revenue impact of the application of the CESS in the 2021–26 period and the corresponding CESS carryover true-up 2020 is summarised in Table 6-1.

Table 6-1 CESS revenue increments in 2026–31 ($2025–26, million)

CESS item	2026–27	2027–28	2028–29	2029–30	2030–31
CESS revenue increment as per NER 6.4.3(a)(5)	-34.03	-34.03	-34.03	-34.03	-34.03
CESS carryover true-up for 2020	0.53	0.53	0.53	0.53	0.53
AER final decision CESS	**-33.50**	**-33.50**	**-33.50**	**-33.50**	**-33.50**

Source: AER - CESS Model - Final Decision - AusNet Services distribution determination 2026-31 - April 2026, AER analysis.
Note: Numbers may not sum due to rounding.

6.1.2 Application of the CESS in the 2026-31 regulatory control period

Our final decision is to apply the CESS, as set out in the Capital Expenditure Incentives Guidelines (version 4) to AusNet in the 2026–31 regulatory control period.[7] Specifically, we will apply a volumetric adjustment for business-as-usual connection types. We will also assess whether or not to make adjustments to CESS penalties following an ex post review

[7] NER, cl 6.12.1(i); AER, *Capital Expenditure Incentive Guideline for Electricity Network Service Providers,* August 2025.

for any additional large bespoke connections including but not limited to data centres and grid connected batteries, that have not been included in AusNet's proposal.

The table below summarises how we will classify connection types as either business-as-usual connections or large bespoke connections.

Table 6-2 Our final decision on AusNet's connection type classification

Connection type	Business-as-usual connection	Large bespoke connection
Residential connections – medium density housing, Underground service, complex residential supply projects, low density housing	Yes	No
Commercial/Industrial connections – Business supply projects, EV charging stations, Department of Transport Bus Depot EV connections	Yes	No
Commercial/Industrial connections – Data centres, Other bespoke large connections	No	Yes
Embedded generation – Community batteries (Hybrid and batteries (=<1.5MVA))	Yes	No
Embedded generation – Grid scale batteries and renewable generator hybrids (hybrid and batteries(>1.5MVA))	No	Yes

Source: AER analysis.

Consistent with our draft decision, we do not allow innovation expenditure, or category specific expenditure other than connections to be excluded from the CESS. However, AusNet may voluntarily forgo any CESS revenue increment.

The volumetric adjustment for business-as-usual connection types and ex post adjustment for large bespoke connections are in the long-term interest of consumers. These two mechanisms reduce any windfall gains and losses associated with forecasting error. Please see our final explanatory statement accompanying the Capital Expenditure Incentive Guidelines (version 4) for further detail.[8]

6.2 AusNet's revised proposal

6.2.1 CESS revenue increments from the 2021–26 regulatory control period

AusNet proposed a CESS revenue decrement of $137.4 million ($2025–26) from the 2021–26 regulatory control period.[9] This reflects an expected overspend to the AER's regulatory allowance. This also includes two proposed exclusions:

8 AER, *Capital Expenditure Incentive Guidelines Review 2025 – Explanatory Statement for Final Guidelines*, August 2025, pp. 26–31.

9 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, pp. 49, 255–256.

- expenditure associated with the transition to Zinfra as its operations and maintenance service provider (Zinfra transition costs)
- innovation expenditure.

6.2.2 Final year actual capex true-up for 2020

AusNet accepted our Draft Decision true-up adjustment of $2.7 million to be added to its CESS revenue increments in the 2026–31 period.[10]

6.2.3 Application of the CESS in the 2026–31 regulatory control period

AusNet proposed to apply the Capital Expenditure Incentive Guidelines (version 4) in the 2026–31 regulatory period, with volumetric adjustments for business-as-usual connections and ex post adjustments for large bespoke connections.[11]

6.3 Assessment approach

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

- the revenue effects on AusNet from applying the CESS in the 2021–26 regulatory control period[12]
- whether or not to apply the CESS to AusNet in the 2026–31 regulatory control period and how any applicable scheme will apply.[13]

Our assessment approach is set out below.

We must determine the appropriate revenue increments or decrements (if any) for each year of the 2026–31 regulatory control period arising from the application of the CESS as set out in the 2013 Capital Expenditure Incentive Guidelines CESS during the 2021–26 regulatory control period.[14] Next, we assess whether any adjustments should be made to the CESS for deferred capex in accordance with the 2013 Capital Expenditure Incentive Guidelines. Finally, we make adjustments based on updated modelling inputs.

In deciding whether to apply a CESS to AusNet for the 2026–31 regulatory control period, and the nature of the details of the scheme, we must:[15]

- make that decision in a manner that contributes to the capex incentive objective[16]

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10 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, p. 255.

11 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, p. 149.

12 NER, cl. 6.4.3(a)(5).

13 NER, cl. 6.12.1(i).

14 Increments or decrements arising from the application of incentive mechanisms, including the CESS, form one of the building blocks that is used to determine the annual revenue requirement for distribution network service providers for each regulatory year of a regulatory control period: NER, cl. 6.4.3(a)(5).

15 NER, cl. 6.5.8A(e).

16 NER, cl. 6.5.8A(e)(3); the capex incentive objective is set out in cl. 6.4A(a).

- take into account the CESS principles,[17] the capex objectives and if relevant the opex objectives,[18] the interaction with other incentive schemes[19] as they apply to the particular service provider, and the circumstances of the service provider.[20]

The capex incentive objective is to ensure that only capex that meets the capex criteria is included in the RAB used to set prices. This ensures consumers only pay for capex that is efficient and prudent.

6.3.1 Interrelationships

The approval of the CESS revenue increment determines the associated CESS building block as part of AusNet's overall forecast revenue requirement for the 2026–31 regulatory control period.

The CESS relates to other incentives AusNet faces to incur efficient opex, conduct demand management, and maintain or improve service levels. Related schemes include the efficiency benefit sharing scheme (EBSS) for opex, the service target performance incentive scheme (STPIS) for service levels, and the demand management incentive allowance mechanism (DMIAM). 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.

6.4 Reasons for decision

6.4.1 CESS revenue increments from the 2021–26 regulatory control period

Our final decision is to increase AusNet's CESS revenue decrement by $32.8 million. We have adjusted for modelling inputs such as CPI, reported capex and the WACC to reflect more up to date information.

AusNet has proposed two exclusions to be applied to the CESS revenue increment from the 2021–26 regulatory control period:

- innovation expenditure
- transition costs associated with AusNet's decision to change service providers at the end of the regulatory control period.

We have reviewed the proposal against the 2013 Capital Expenditure Incentive Guidelines which was set at the beginning of and applies for the 2021–26 regulatory control period. The scheme does not allow for exclusions to be applied, nor the ability to apply retrospective exclusions as AusNet has proposed.[21] Further, clause 6.5.8A of the NER does not give the

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17 NER, cl. 6.5.8A(e)(4)(i); the CESS principles are set out in cl.6.5.8A(c).

18 NER, cll. 6.5.8A(e)(4)(i) and 6.5.8A(d)(2); the capex objectives are set out in cl. 6.5.7(a); the opex objectives are set out in cl. 6.5.6(a).

19 NER, cl. 6.5.8A(d)(1).

20 NER, cl. 6.5.8A(e)(4)(ii).

21 AER, *Capital Expenditure Incentive Guidelines*, November 2013.

AER the discretion to move away from the application of the scheme that has been determined at the beginning of the regulatory control period.

Our final decision is to not accept AusNet's exclusion proposal for the 2021–26 regulatory control period. However, we note that AusNet has voluntarily included a reduction in the CESS for an innovation expenditure increment to meet its agreement with customers to not be rewarded for any underspend for innovation. We consider this voluntary reduction is reasonable and in the long term interests of consumers so we have accepted AusNet's reduction.

6.4.2 Application of the CESS in the 2026–31 regulatory control period

We consider that the CESS is needed to provide AusNet with a continuous incentive to pursue efficiency gains. The ex ante measures are the primary means of revealing efficient costs over time. The CESS provides a strong incentive to reveal this expenditure and serves as a good indicator of future costs. We updated the CESS in August 2025 which includes our consideration of category-specific exclusions for connections capex. Specifically, we stated that it will apply a volumetric adjustment for business-as-usual connection types as a default. We also updated the Capital Expenditure Incentive Guidelines to allow adjustments to CESS penalties following an ex post review for any additional large bespoke connections, including data centres, that have not been included in a network's proposal.

We will apply the 2025 Capital Expenditure Incentive Guidelines (version 4) in the 2026–31 regulatory control period.[22]

We consider AusNet has discretion over how it undertakes its capex and which projects it prioritises over regulatory control periods. However, we note that the volume of connections is an area where forecasting error is likely to drive the differences in capex outcomes, rather than efficiency and this can have a material effect on capex outcomes. This is because DNSPs must respond to connection requests and have little control over the volume of such requests.

For this reason, we introduced a mechanism in Section 2.6.1 of the 2025 Capital Expenditure Incentive Guidelines (version 4) to reduce the impact of connections volume forecasting error. We consider a volumetric adjustment to the CESS which takes into account the change in volumes of connections, so that a DNSP is not rewarded or penalised for changes in the volume of work it needs to undertake, is appropriate. Applying volumetric adjustment is a symmetrical mechanism that reduces any windfall gains or losses associated with forecasting error in a time of significant connection uncertainty. By applying this mechanism, we will ensure AusNet is provided with a consistent incentive framework for business-as-usual connections. This approach effectively removes forecast uncertainties caused by volatility in connection volumes.

A volumetric adjustment to the CESS would not address the issue of forecasting error for individual large connections. These types of connections do not have standardised unit rates. In Section 2.8.1 of the 2025 Capital Expenditure Incentive Guidelines (version 4), we have

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22 AER, *Capital Expenditure Incentive Guidelines*, August 2025.

included the ability for us to reduce CESS penalties associated with large bespoke connections following an ex post review. For example, a data centre, including associated augmentation costs, may have bespoke costs that could vary significantly based on a customer's requirements. So, we may adjust the CESS penalties after an ex post review for large bespoke connections that were not in a DNSPs original forecast. AusNet has proposed the following connections as large bespoke connections:

- data centres
- grid scale batteries and renewable generator hybrids
- community batteries
- other bespoke large commercial connections.

We consider that community batteries are not large bespoke connections as per our 2025 Capital Expenditure Incentive Guidelines (version 4) because expenditure is forecast based on standardised unit rates.[23] Given this, we have classified them as business-as-usual connections and they will be subject to the volumetric adjustment.

For innovation, AusNet noted that it would return unspent funds to customers. To facilitate this, AusNet submitted that it requires a CESS exclusion for this category.[24]

We maintain our position to not have category specific exclusions beyond the volumetric adjustment for the CESS. However, we have made it clear in Section 2.3.4 of the 2025 Capital Expenditure Incentive Guidelines (version 4) that a DNSP may voluntarily reduce its CESS award, or increase its CESS penalty, as it may directly benefit consumers.[25] This provides AusNet with the same CESS outcome it proposed for innovation without us specifically excluding innovation from the CESS.

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23 AER, *Capital Expenditure Incentive Guidelines*, August 2025, p. 10.

24 AusNet, *2026–31 Revised Regulatory Proposal*, December 2025, p. 257.

25 AER, *Capital Expenditure Incentive Guidelines Review 2025 – Explanatory Statement for Final Guidelines*, August 2025, pp. 17, 31.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management incentive allowance mechanism
DNSP	distribution network service provider
EBSS	efficiency benefit sharing scheme
NER or the rules	National Electricity Rules
NSP	network service provider
opex	operating expenditure
RAB	regulatory asset base
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital