

Final decision

CitiPower electricity distribution determination
1 July 2026 – 30 June 2031

Attachment 6 – Capital expenditure sharing scheme

April 2026

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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 the 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 be¹
- 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, 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).

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 CitiPower 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 increment of \$3.1 million (\$2025–26) across the 2026–31 regulatory control period. This CESS revenue increment is calculated using the CESS from the 2021–26 regulatory control period and the corresponding CESS carryover true-up for 2020. It is \$16.8 million lower than CitiPower’s forecast CESS revenue increment of \$19.9 million (\$2025–26).

The difference between our calculations and CitiPower’s revised proposal is due to:

- an adjustment to account for the deferral of capex
- an update to 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 increment arises from an underspend 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)	0.08	0.08	0.08	0.08	0.08
CESS carryover true-up for 2020	0.53	0.53	0.53	0.53	0.53
AER final decision CESS	0.61	0.61	0.61	0.61	0.61

Note: Numbers may not sum due to rounding.

Source: AER analysis; AER - CESS Model - Final Decision - CitiPower distribution determination 2026–31 - April 2026.

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 CitiPower in the 2026–31 regulatory control period.⁷ Specifically, we will apply a volumetric adjustment for business-as-usual connection types. We will also

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

assess whether or not to make adjustments to CESS penalties following an ex post review for any additional large bespoke connections, including but not limited to data centres, that have not been included in CitiPower’s proposal.

Table 6-2 summarises how we will classify connection type as either business-as-usual connections or large bespoke connections.

Table 6-2 Our final decision on CitiPower’s connection type classification

Connection type	Business-as-usual connection	Large bespoke connection
Residential simple connection LV/ complex connection LV / complex connection HV	Yes	No
Commercial/Industrial simple connection LV/ complex connection HV (customer connected at LV, minor HV works)	Yes	No
Commercial/Industrial complex connection HV (customer connected at LV, upstream asset works)/ complex connection HV (customer connected at HV)/ complex connection sub-transmission	No	Yes
Subdivision complex connection LV/ complex connection HV (no upstream asset works)/ complex connection HV (with upstream asset works)	Yes	No
Embedded generation simple connection LV/ complex connection HV (small capacity, =<1.5MVA)	Yes	No
Embedded generation complex connection HV (large capacity,>1.5MVA)	No	Yes
Grid connected batteries	No	Yes
Data centres	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, CitiPower may voluntarily forgo any CESS revenue increment.

The volumetric adjustment for business-as-usual connection types and ex post adjustment to the CESS penalties for additional 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

⁸ AER, [Capital Expenditure Incentive Guidelines Review 2025 – Explanatory Statement for Final Guidelines](#), August 2025, pp 26–31.

6.2 CitiPower’s revised proposal

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

CitiPower proposed a CESS revenue increment of \$17.3 million (\$2025–26) from the 2021–26 regulatory control period.⁹ This reflects an expected underspend of 12% compared to the AER’s regulatory allowance, including the adjustments for the cost pass through application relating to flexible trading arrangements.

In its revised proposal, CitiPower rejected our draft decision relating to deferrals.¹⁰ It stated that it has not incurred a material underspend because it has incurred a 3% overspend compared to the AER’s 2021–26 allowance prior to the inclusion of disposals. It also considered that it has spent its full ICT allowance in the 2021–26 regulatory period, and therefore it could not undertake the “ERP system replacement” project during 2021–26 period.¹¹

For the reasons above, it considered that deferrals should not be applied when calculating CitiPower’s CESS revenue increments for its 2021–26 regulatory period.

6.2.2 Final year actual capex true-up for 2020

CitiPower submitted a true-up calculation method that proposed a true-up increment of \$2.6 million (\$2025–26) be added to its CESS revenue increments in the 2026–31 period.¹²

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

In its revised proposal, CitiPower proposed to opt out of the volumetric adjustment for business-as-usual connection and ex post CESS adjustments for large bespoke connections.¹³

We sought further justification from CitiPower using an information request. In response, CitiPower stated that:¹⁴

- volumetric adjustments and ex post adjustments provide the AER significant regulatory discretion creating uncertainty in how it will be applied
- the AER’s draft decision did not require businesses to provide further justification

⁹ CitiPower, *Capital Expenditure Sharing Scheme*, 1 December 2025

¹⁰ CitiPower, *CitiPower Revised Proposal 2026–31 – Revenue and expenditure forecasts*, 1 December 2025, p 59-60.

¹¹ CitiPower, *CitiPower Revised Proposal 2026–31 – Revenue and expenditure forecasts*, 1 December 2025, p 59-60.

¹² CitiPower, *Capital Expenditure Sharing Scheme*, 1 December 2025

¹³ CitiPower, *CitiPower Revised Proposal 2026–31 – Revenue and expenditure forecasts*, 1 December 2025, p 59-60.

¹⁴ CitiPower, *IR#066 – CESS – Public*, 17 February 2025.

- the quality and consistency of CitiPower’s regulatory information notice (RIN) reported connection volumes is relatively low, meaning forecast volumes based on this data are likely to be unreliable.

6.3 Assessment approach

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

- the revenue effects on CitiPower arising from applying the CESS in the 2021–26 regulatory control period¹⁵
- whether or not to apply the CESS to CitiPower in the 2026–31 regulatory control period and how any applicable scheme will apply.¹⁶

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 during the 2021–26 regulatory control period.¹⁷ Next, we assess whether any adjustments should be made to the CESS for deferred capex in accordance with the 2013 Capital Expenditure Incentive Guidelines (version 1). Finally, we make adjustments based on updated modelling inputs.

In deciding whether to apply a CESS to CitiPower for the 2026–31 regulatory control period, and the nature and details of the scheme, we must:¹⁸

- make that decision in a manner that contributes to the capex incentive objective¹⁹
- take into account the CESS principles,²⁰ the capex objectives and if relevant the opex objectives,²¹ the interaction with other incentive schemes²² as they apply to the particular service provider, and the circumstances of the service provider.²³

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.

¹⁵ NER, cl. 6.4.3(a)(5).

¹⁶ NER, cl. 6.12.1(i).

¹⁷ 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).

¹⁸ NER cl. 6.5.8A(e).

¹⁹ NER, cl. 6.5.8A(e)(3); the capex incentive objective is set out in cl. 6.4A(a).

²⁰ NER, cl. 6.5.8A(e)(4)(i); the CESS principles are set out in cl.6.5.8A(c).

²¹ 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).

²² NER, cl. 6.5.8A(d)(1).

²³ NER, cl. 6.5.8A(e)(4)(ii).

6.3.1 Interrelationships

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

The CESS relates to other incentives CitiPower 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

As per our draft decision, we consider that the underspend caused by deferral and re-proposed capex is sufficient and material to justify adjusting CitiPower's proposed CESS payment. CitiPower expects to underspend \$85.4 million in net present value, or 12%, of its capex forecast for the 2021–26 period. We consider this is a material underspend relative to its total capex forecast.

As noted above, CitiPower considered that we should not include asset disposal in determining whether CitiPower will incur a material underspend. We do not accept CitiPower's position to disregard asset disposal from CESS calculations. This is because capital contributions and asset disposals form part of the formula in calculating the capex subject to the CESS. Thus, taking into account CitiPower's actual asset disposals, it will incur an underspend for the purpose of CESS payments.

We also do not agree with CitiPower's position on ICT specific overspend. We do not consider a category specific overspend is relevant to the deferral assessment criteria which is based on total capex and whether there was a total underspend.

As per our draft decision, there is a material net underspend for the 2021–26 regulatory period, and we have identified a material deferral for its Brunswick modernisation and S/4 HANA projects.

To account for these deferred projects, we have subtracted the net present value of the \$55.5 million CESS deferral from CitiPower's total efficiency gain. This results in a CESS revenue increment of \$0.4 million. This is a reduction of \$16.8 million, before the true-up adjustment. This ensures that consumers will share in the benefits where material amounts of capex are deferred from one regulatory control period to the next.

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

We consider that the CESS is needed to provide CitiPower 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 we 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.

In our draft decision, we considered that the updated guidelines should be applied to CitiPower. In making this draft decision, we had regard to CitiPower's proposal noting the uncertainty in forecasting connections capex. We also stated that CitiPower may propose to opt out of these adjustments.

In its revised proposal, CitiPower proposed to opt out of volumetric adjustments for business-as-usual connections and ex post adjustments to the CESS for large bespoke connections. It provided justification for these positions in response to an information request, as noted in section 6.2.3 above.

Overall, we do not agree with CitiPower's positions. Our reasoning is detailed below.

6.4.2.1 Volumetric adjustment

We do not agree with CitiPower's position that our discretion in reviewing volumetric adjustments would create uncertainty. In our explanatory statement accompanying the 2025 review of the capital expenditure incentive guidelines, we included a worked example to demonstrate how we intend to apply the volumetric adjustment. We also provided distribution businesses with the flexibility to identify specific connection sub-categories where volumetric adjustments should be excluded.

We also do not agree with CitiPower's view that forecast volumes based on RIN data are likely to be unreliable. We consider CitiPower is required to provide the RIN information with a reasonable degree of certainty. While there may be some double counting of volumes due to its work program administration, we consider this error would not be material.

Even if we accept CitiPower's position that volumes data is inaccurate, our volumetric adjustment can still be applied. This is because our volumetric adjustment is measuring the relative difference in volumes between forecast and actual volumes. So, any data inconsistency would broadly be negated when we apply the volumetric adjustments.

Applying volumetric adjustments is a symmetrical mechanism that reduces any windfall gains and losses associated with forecasting error in a time of significant connection uncertainty. By applying this mechanism, we will ensure CitiPower is provided with a consistent incentive framework for business-as-usual connections. This approach effectively removes forecast uncertainties caused by volatility in connection volumes.

6.4.2.2 Large bespoke connections

We do not agree with CitiPower's position that our discretion in applying an ex post adjustment would create uncertainty. Large bespoke connections are complex, may be negotiated with individual customers, and largely funded by customers through capital contributions. Therefore, an ex post adjustment mechanism allows CitiPower to not be penalised under the application of the CESS if it incurs additional large bespoke connections,

such as data centres, that were not in its forecast. As with the volumetric adjustment discussed in the prior section, this effectively removes forecast uncertainties arising from unanticipated large bespoke connections.

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
