# Final decision

Jemena 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 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 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 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).

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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 Jemena 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 $33.8 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. It is a $0.7 million smaller decrement than Jemena's forecast CESS revenue decrement of $34.5 million ($2025–26).

The difference between our calculations and Jemena's revied proposal is due to:

- 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 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 in Table 6-1. A CESS carryover true-up for 2020 is not required for Jemena as it provided actual 2020 capex in its CESS calculations for our 2021-26 final decision, meaning no carryover true-up is required.[7] It is included here for comparative purposes only.

**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) | -6.77 | -6.77 | -6.77 | -6.77 | -6.77 |
| CESS carryover true-up for 2020 | 0 | 0 | 0 | 0 | 0 |
| **AER final decision CESS** | **-6.77** | **-6.77** | **-6.77** | **-6.77** | **-6.77** |

Note: Numbers may not sum due to rounding.
Source: AER analysis; AER - CESS Model - Final Decision – Jemena Electricity Network distribution determination 2026-31 - April 2026.

[7] Jemena was able to provide audited actual data for 2020 during the 6-month period when Victorian DNSP's transitioned from calendar to financial regulatory years.

### 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 Jemena in the 2026–31 regulatory control period.[8] Specifically, we will apply a volumetric adjustment for business-as-usual connection types. We also 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 proposed as part of Jemena's revised proposal capex forecast.

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 Jemena's connection type classification**

| Connection type | Business-as-usual connection | Large bespoke connection |
|---|---|---|
| Residential simple connection LV – less than 22kV | Yes | No |
| Commercial/Industrial simple connection LV/ complex connection HV (customer connected at LV, minor HV works)/ Complex connection HV (customer connected at LV, upstream asset works) – less than 22kV | Yes | No |
| Subdivision complex connection LV/ complex connection HV (no upstream asset works)/ complex connection HV (with upstream asset works) – less than 22kV | Yes | No |
| Commercial/Industrial complex connections HV (customer connected at HV)/ complex connection sub-transmission – 22kV and above | No | Yes |
| All connection projects 22kV and above, including 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, Jemena 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.[9]

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

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

## 6.2 Jemena's revised proposal

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

Jemena proposed a CESS revenue decrement of $34.5 million ($2025–26) from the 2021–26 regulatory control period.[10] This reflects an expected overspend of 10% compared to the AER's regulatory allowance. This includes adjustments for the 4 cost pass-through applications relating to flexible trading arrangements, the Victorian Emergency Backstop Mechanism 2, accelerating smart meter rollout, and market interface technology enhancement.[11]

As requested in our draft decision, Jemena has recast its actual capital contribution figures.[12] Jemena had previously reported capital contributions on an "as commissioned" basis. In November 2024, the AER issued a guidance note clarifying that material contributions for connection projects spanning more than 12 months should be individually reported on an "as incurred" basis under the regulatory reporting framework.[13] Changing the basis of capital contributions in this way leads to different capital contribution amounts in each year, and hence different net actual capex applicable to the CESS. However, when Jemena submitted its revised proposal, it had not finished auditing its recast capital contribution figures. It acknowledged the AER would update capital contributions in its final decision to reflect the audited figures.[14]

### 6.2.2 Application of the CESS in the 2026–31 regulatory control period

Jemena 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 Based on our updated Capital Expenditure Incentive Guidelines, Jemena provided methods and classifications for these adjustments. Jemena proposed to classify all connections at 22 kV and above as large bespoke projects, thus potentially subject to the ex post adjustments.[15]

We sought further details from Jemena via information requests and meetings. In response, Jemena submitted its definition of large bespoke connection subject to the ex post exclusion corresponded with the RIN categories:[16]

- Commercial/Industrial – Complex connection sub-transmission
- Commercial/Industrial – Complex connections HV (customer connected at HV)

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10 JEN, *RP - Att 08-10M CESS model*, December 2025

11 Jemena, *RP - Att 07-01 - Incentive mechanisms*, December 2025, pp 2-3; AER, *Attachment 6 - Capital expenditure sharing scheme - Draft decision - Jemena distribution determination 2026-31*, September 2025, p 4.

12 Jemena, *RP - Att 07-01 - Incentive mechanisms*, December 2025, pp 1-2.

13 AER, *Reporting capital contributions AER Guidance Note for electricity distributors*, November 2024, p. 2

14 Jemena, *RP - Att 07-01 - Incentive mechanisms*, December 2025, pp 1-2.

15 Jemena, *RP - Att 07-01 - Incentive mechanisms*, December 2025, pp 4-5.

16 Jemena, *response to IR58*: *Section 9*, March 2026.

## 6.3 Assessment approach

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

- the revenue effects on Jemena arising from applying the CESS in the 2021–26 regulatory control period[17]
- whether or not to apply the CESS to Jemena in the 2026–31 regulatory control period and how any applicable scheme will apply.[18]

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 2013 Capital Expenditure Incentive Guidelines during the 2021–26 regulatory control period.[19] 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 Jemena for the 2026–31 regulatory control period, and the nature of the details of the scheme, we must:[20]

- make that decision in a manner that contributes to the capex incentive objective[21]
- take into account the CESS principles,[22] the capex objectives and if relevant the opex objectives,[23] the interaction with other incentive schemes[24] as they apply to the particular service provider, and the circumstances of the service provider.[25]

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 Jemena's overall forecast revenue requirement for the 2026–31 regulatory control period.

The CESS relates to other incentives Jemena faces to incur efficient opex, conduct demand management, and maintain or improve service levels. Related schemes include the

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

18 NER, cl. 6.12.1(9).

19 Increments or decrements arising from the application 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).

20 NER cl. 6.5.8A(e).

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

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

23 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).

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

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

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 lower in magnitude Jemena's CESS revenue decrement from $34.5 million to $33.8 million.

The difference between our final decision and Jemena's revised proposal primarily owes to updating CPI and WACC, incorporating our final decision on Jemena's 4 cost pass-through applications, and incorporating audited capital contribution figures.

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

We consider that the CESS is needed to provide Jemena 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.

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

#### 6.4.2.1 Volumetric adjustment

We consider Jemena 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 Jemena is provided with a consistent incentive framework for business-as-usual connections. This approach effectively removes forecast uncertainties caused by volatility in connection volumes.

We are not satisfied with Jemena's original revised proposal submission on the operation of the volumetric adjustment for business-as-usual connections. However, we compliment Jemena for constructively engaging with us via information requests and meetings to make its proposal better reflect the intentions of the updated Capital Expenditure Incentive Guidelines.

Our concern with Jemena's revised proposal on volumetric adjustments was that it treated residential and low-voltage business connections as 2 aggregate categories. The nature and cost of connections can vary between sub-categories within these 2 broad categories. As such, we require DNSPs to calculate implied unit rates for each discrete sub-category. We requested Jemena break these two categories down into the sub-categories recorded in Jemena's Regulatory Information Orders.

Jemena provided updated volume, total capex, and implied unit rate information for commercial/industrial business-as-usual connections. However, it explained it could not do this for residential simple connections. Jemena noted that the relevant Standard Control Services capex, to which the CESS applies, are for pole-to-pit costs. These do not have a direct one-to-one relationship with the number of new residential connections. Although it reports SCS capex for pole-to-pit services, Jemena noted it does not report the volume of pole-to-pit services in its Regulatory Information Orders. Jemena has suggested it could calculate implied unit rates by dividing the total capex for pole-to-pit services by the volume of new residential connections. It noted that while pole-to-pit volumes would not be equal to residential connection volumes, they are reasonable proxies for each other, as both would grow in line with the growth of the network.[26]

We consider this is a reasonable approach given Jemena's data recording processes, and accept it for the application of the CESS in 2026-31. The volumetric adjustment is intended to adjust CESS increments for actual connection expenditure relative to a connections forecast. So long as actual expenditure is calculated on the same basis as the forecast, there are no material concerns.

#### 6.4.2.2 Large bespoke connections

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 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.

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[26] Jemena, *response to IR58*: *Section 8*, March 2026.

Jemena has proposed to classify all connection projects at 22kv and above as large bespoke and to be excluded from volumetric adjustments. It proposed that those >22kv connections not included in its forecast should be excluded as part of any ex-post review. It considers this an appropriate definition as it is not subject to interpretation, and such connections require specialist engineering knowledge to deploy and connect, and its Connection Policy uses 22kV as the threshold for recovering tax from connecting customers, rather than through the building block revenue allowance.[27]

We consider Jemena's definition of large bespoke connections is reasonable, and accept it for the application of the CESS in 2026-31.

[27] Jemena, *RP - Att 07-01 - Incentive mechanisms*, December 2025, pp 4-5. Jemena clarified that this definition corresponds with the RIN connections categories commercial/Industrial complex connections HV (customer connected at HV) and commercial/industrial complex connection sub-transmission. See: Jemena, *response to IR58*: *Section 9*, March 2026.

# Shortened forms

| Term | Definition |
|---|---|
| AER | Australian Energy Regulator |
| 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 |