Final decision

United Energy 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 at the time of the 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]

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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.

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).

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 United Energy 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 $3.4 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 $0.8 million higher than United Energy's forecast CESS revenue increment of $2.6 million ($2025–26).[7]

The difference between our calculations and United Energy's revised 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 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)	0.69	0.69	0.69	0.69	0.69
CESS carryover true-up for 2020	0	0	0	0	0
AER final decision CESS	**0.69**	**0.69**	**0.69**	**0.69**	**0.69**

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

[7] This includes United Energy's proposal for its CESS from the 2021-26 regulatory control period and true-up value from 2020.

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 United Energy in the 2026–31 regulatory control period.[8] Specifically, we will apply a volumetric adjustment for business-as-usual connection types. We will also assess whether 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 United Energy'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 United Energy'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, United Energy 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

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

forecasting error. Please see our final explanatory statement accompanying the Capital Expenditure Incentive Guidelines (version 4) for further detail.[9]

6.2 United Energy's revised proposal

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

United Energy proposed a CESS revenue increment of $2.8 million ($2025–26) from the 2021–26 regulatory control period.[10] This reflects an expected underspend of 4% compared to the AER's regulatory allowance, including the adjustments for the cost pass through application relating to flexible trading arrangements.

6.2.2 Final year actual capex true-up for 2020

United Energy submitted a true-up calculation method that proposed a true-up decrement of $0.2 million ($2025–26) be added to its CESS revenue increments in the 2026–31 period.[11]

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

In its revised proposal, United Energy proposed to opt out of the volumetric adjustment for business-as-usual connection and ex post CESS adjustments for large bespoke connections.[12]

We sought further justification from United Energy using an information request. In response, United Energy stated that:[13]

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

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

10 United Energy, *UE RRP MOD 2.07 Capital Expenditure Sharing Scheme – Dec2025 - Public*, 1 December 2025.

11 United Energy, *UE RRP MOD 2.07 Capital Expenditure Sharing Scheme – Dec2025 - Public*, 1 December 2025.

12 United Energy, United Energy Revised Proposal 2026-31 - Revenue and expenditure forecasts - Dec2025 – Public, 1 December 2025, p 57.

13 United Energy, IR#*060 – CESS – Public*, 17 February 2025.

6.3 Assessment approach

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

- the revenue effects on United Energy arising from applying the CESS in the 2021–26 regulatory control period [14]
- whether or not to apply the CESS to United Energy in the 2026–31 regulatory control period and how any applicable scheme will apply.[15]

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.[16] 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 United Energy for the 2026–31 regulatory control period, and the nature and details of the scheme, we must:[17]

- make that decision in a manner that contributes to the capex incentive objective[18]
- take into account the CESS principles,[19] the capex objectives and if relevant the opex objectives,[20] the interaction with other incentive schemes[21] as they apply to the particular service provider, and the circumstances of the service provider.[22]

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

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

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

15 NER, cl. 6.12.1(i).

16 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).

17 NER cl. 6.5.8A(e).

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

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

20 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).

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

22 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 increase United Energy's CESS revenue increment by $0.8 million. We have adjusted for modelling inputs such as the consumer price index (CPI), reported capex and the WACC, to reflect the most up-to-date information.

6.4.2 Final year actual capex true-up for 2020

Our final decision includes a true-up adjustment of $0.0 million ($2025–26) to account for the updated actual capex for 2020. A CESS carryover true-up for 2020 is zero because audited United Energy's actual 2020 capex is equal to estimate capex used in its CESS calculations in our 2021–26 final decision.

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

We consider that the CESS is needed to provide United Energy 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 Capital Expenditure Incentive Guidelines should be applied to United Energy. In making this draft decision, we had regard to United Energy's proposal noting the uncertainty in forecasting connections capex. We also stated that United Energy may propose to opt out of these adjustments.

In its revised proposal, United Energy 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 United Energy's positions. Our reasoning is detailed below.

6.4.3.1 Volumetric adjustment

We do not agree with United Energy'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 United Energy's view that forecast volumes based on RIN data are likely to be unreliable. We consider United Energy 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 United Energy'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 United Energy is provided with a consistent incentive framework for business-as-usual connections. This approach effectively removes forecast uncertainties caused by volatility in connection volumes.

6.4.3.2 Large bespoke connections

We do not agree with United Energy'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 contribution. Therefore, an ex post adjustment mechanism allows United Energy 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