

Draft Decision

AusNet Services electricity transmission determination 2027 to 2032

(1 April 2027 to 31 March 2032)

Attachment 6 Capital expenditure sharing scheme

June 2026

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Contents

| | | |
|----------|---|----------|
| 6 | Capital expenditure sharing scheme | 1 |
| 6.1 | Draft decision | 2 |
| 6.2 | AusNet’s proposal | 3 |
| 6.3 | Assessment approach..... | 3 |
| 6.4 | Reasons for draft decision..... | 5 |
| | Glossary..... | 7 |

6 Capital expenditure sharing scheme

The capital expenditure sharing scheme (CESS) provides financial rewards for network service providers (NSPs) 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 forecast capex in the transmission 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 are applicable to the relevant regulatory control period are decided when making our determination on a forecast basis.⁴ So, for the current regulatory control period, the CESS set out in the 2013 Capital Expenditure Incentive Guidelines (version 1) (2013 Guidelines) will apply in the building block model.⁵ For the upcoming 2027–32 regulatory control period, the 2025 Capital Expenditure Incentive Guidelines (version 4) (2025 Guidelines) will be applied.⁶

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 Guidelines for Electricity Network Service Providers*, August 2025, pp. 9–17.

⁴ NER, cl. 6A.6.5A.

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

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

We consider that, 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 draft decision for the determination of the revenue impacts as a result of the CESS applying from the 2022–27 regulatory control period and the application of the CESS for AusNet during the 2027–32 regulatory control period.

6.1 Draft decision

6.1.1 CESS revenue increments from the 2022–27 regulatory control period

Our draft decision is to not accept AusNet’s proposal and to apply a CESS revenue decrement amount of \$26.32 million (\$2026–2027) across the 2027–32 regulatory control period. This is from the application of the CESS in the 2022–27 regulatory control period and the corresponding CESS carryover true-up for 2021. This is an \$8.14 million smaller penalty than AusNet’s forecast CESS revenue decrement of \$34.47 million (\$2026–2027).

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

- more recent inflation figures
- an updated weighted average cost of capital (WACC) input information
- adjustments to actual/estimate capex to remove a network capability priority project and include Software-as-a-Service expenditure in line with the Roll Forward Model.⁷

The CESS decrement arises from an overspend in the total capex to which the CESS applies against the forecast for the 2022–27 regulatory control period. Our draft decision on the revenue impact of the application of the CESS in the 2022–27 regulatory control period and the corresponding CESS carryover true-up for 2021 is summarised in Table 6.1.

Table 6-1 CESS revenue increments in 2027–32 (\$2026–2027, million)

| CESS item | 2027–28 | 2028–29 | 2029–30 | 2030–31 | 2031–32 |
|--|---------|---------|---------|---------|---------|
| CESS revenue increment as per NER 6.4.3(a)(5) | -7.29 | -7.29 | -7.29 | -7.29 | -7.29 |
| CESS carryover true-up for 2021 | 2.02 | 2.02 | 2.02 | 2.02 | 2.02 |
| AER draft decision CESS | -5.26 | -5.26 | -5.26 | -5.26 | -5.26 |

Note: Numbers may not sum due to rounding.

Source: AER analysis. AusNet - TRR 2027–32 RIN Workbook 4 - CESS model – 7 November 2025.

⁷ AER, AusNet transmission determination 2027–32 RFM model, June 2026.

6.1.2 Application of the CESS for the 2027–32 regulatory control period

Our draft decision is to apply the CESS, as set out in the 2025 Guidelines, to AusNet in the 2027–32 regulatory control period.⁸ The guidelines exclude from the CESS any capex incurred by an NSP in delivering a priority project approved under the network capability component of the service target performance incentive scheme (STPIS) for Transmission Network Service Providers (TNSP). Accordingly, we have excluded an STPIS project from AusNet’s proposal.

We have included AusNet’s reported Software-as-a-Service expenditure due to a change in the accounting standard.

6.2 AusNet’s proposal

6.2.1 CESS revenue increments from the 2022–27 regulatory control period

AusNet proposed a CESS revenue decrement of \$34.47 million (\$2026–2027) from the 2022–27 regulatory control period. This reflects an expected overspend against the AER’s regulatory allowance.

6.2.2 Final year actual capex true-up for 2021

AusNet provided a true-up model with a true-up value increment of \$10.41 million (\$2026–2027) through an Information Request.⁹

6.2.3 Application of the CESS for the 2027–32 regulatory control period

AusNet proposed to apply the 2025 Guidelines in the 2027–32 regulatory control period.¹⁰

6.3 Assessment approach

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

- the revenue effects on AusNet from applying the CESS in the 2022–27 regulatory control period¹¹
- whether or not to apply the CESS to AusNet in the 2027–32 regulatory control period and how any applicable scheme will apply.¹²

⁸ NER, cl 6A.6.5A; AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025.

⁹ AusNet, *Response to IR#006 – Capex – ICT; other non-network (fleet, test equipment)*; CESS true-up, 10 December 2025.

¹⁰ AusNet Services, *TRR 2027–32 RIN Workbook 4 – CESS*, 7 November 2025.

¹¹ NER, cl. 6A.5.4.

¹² NER, cl. 6A.14.1(5A).

Our assessment approach is set out below.

We must determine the appropriate revenue increments or decrements (if any) for each year of the 2027–32 regulatory control period arising from the application of the CESS as set out in the 2013 Guidelines during the 2022–27 regulatory control period.¹³ Next, we assess whether any adjustments should be made to the CESS for deferred capex in accordance with the 2025 Guidelines. Finally, we make adjustments based on updated modelling inputs.

In deciding whether to apply a CESS to AusNet for the 2027–32 regulatory control period, and the details of the scheme, we must:¹⁴

- make that decision in a manner that contributes to the capex incentive objective¹⁵
- take into account the CESS principles,¹⁶ the capex objectives and if relevant the opex objectives,¹⁷ the interaction with other incentive schemes as they apply to the particular service provider,¹⁸ and the circumstances of the service provider.¹⁹

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 2027–32 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 for opex, STPIS for service levels, and the demand management incentive allowance mechanism. 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.

¹³ 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 transmission network service providers for each regulatory year of a regulatory control period: NER, cl. 6A.5.4.

¹⁴ NER, cl. 6A.6.5A(e).

¹⁵ NER, cl. 6A.6.5A(e)(3); the capex incentive objective is set out in cl. 6A.5A(a).

¹⁶ NER, cl. 6A.6.5A(e)(4)(i); the CESS principles are set out in cl. 6A.6.5A(c).

¹⁷ NER, cll. 6A.6.5A(e)(4)(i) and 6A.6.5A(d)(2); the capex objectives are set out in cl. 6A.6.7(a); the opex objectives are set out in cl. 6A.6.6(a).

¹⁸ NER, cll. 6A.6.5A(e)(4)(i) and 6A.6.5A(d)(1).

¹⁹ NER, cl. 6A.6.5A(e)(4)(ii).

6.4 Reasons for draft decision

6.4.1 CESS revenue increments from the 2022–27 regulatory control period

Our draft decision is for a decrement of \$26.32 million (\$2026–2027), which is an \$8.14 million smaller penalty than AusNet’s proposed decrement of \$34.47 million (\$2026–2027). We have adjusted for modelling inputs such as CPI, reported capex and the WACC to reflect more up-to-date information.

6.4.2 Final year actual capex true-up for 2021

Our draft decision includes a true-up adjustment of \$10.10 million (\$2026–2027) to account for the updated actual capex for 2021. This is \$0.30 million less than AusNet’s forecast true-up adjustment of \$10.41 million.

6.4.3 Application of CESS for the 2027–32 regulatory control period

We consider that the CESS provides financial rewards to NSPs that improve capex efficiency and financial penalties to those that become less efficient. This supports our view that the CESS is intended to target genuine efficiency gains rather than penalise all capex deferrals regardless of the reason.

We received 2 submissions on AusNet’s proposed application of the CESS from the Consumer Challenge Panel 34 and AusNet’s Transmission Stakeholder Advisory Panel.²⁰

Consumer Challenge Panel 34 raised concerns that AusNet’s forecast capex needs may exceed its deliverability due to resource, outage and supply chain constraints. In this context, AusNet should not be rewarded for not delivering committed work, and its CESS outcomes may reflect delivery constraints or timing effects rather than genuine efficiency gains. AusNet’s Transmission Stakeholder Advisory Panel raised similar concerns.

The 2025 Guidelines include an adjustment mechanism to address the impact of capex deferrals.²¹ This mechanism helps consumers share in the benefits from deferred capex. The 2025 Guidelines also reflect the outcomes of the ex-post review,²² and, in some circumstances, the CESS may be adjusted where a TNSP has inefficiently deferred capex from one regulatory control period to the next. We consider that together, these mechanisms mitigate the risk of inefficient capex deferrals and help ensure the CESS outcomes are aligned with genuine efficiency gains.

Overall, we consider the CESS framework remains appropriate to apply to AusNet in the 2027–32 regulatory control period. The CESS framework incorporates adjustment

²⁰ CCP34 – *Submission on AusNet Services 2027–32 electricity transmission revenue proposal* - February 2026; Transmission Stakeholder Advisory Panel – *Submission on AusNet Services 2027–32 electricity transmission revenue proposal* - February 2026.

²¹ AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025, Section 2.7, pp. 9–10.

²² AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025, Section 2.8.1, p. 11.

mechanisms, the ex-post review process and transparency measures, which strengthen the ability to distinguish capex outcomes driven by different factors.

Glossary

| Term | Definition |
|-------|---|
| AER | Australian Energy Regulator |
| capex | capital expenditure |
| CESS | capital expenditure sharing scheme |
| CPI | consumer price index |
| NER | national electricity rules |
| opex | operating expenditure |
| STPIS | service target performance incentive scheme |
| TNSP | transmission network service provider |
| WACC | weighted average cost of capital |
