

Draft Decision

Powerlink electricity transmission determination 2027 to 2032

(1 July 2027 to 30 June 2032)

Attachment 6 – Capital expenditure sharing
scheme

September 2026

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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.

In practice, the CESS revenue decrement to be applied across the next regulatory control period (2027–32 in this case for Powerlink) reflects two components:

- A CESS penalty or reward arising from the application of the CESS scheme across the current regulatory control period (2022–27 in this case for Powerlink).
- A true-up for the last year of the previous regulatory control period (2021–22 being the last year in the 2017–22 period for Powerlink). This is because an estimate of that year's capex was used in the revenue determination for the current period (as actual outcomes were not yet known). If the NSP's actual expenditure in that year was below the estimate, an addition to revenue needs to be made; but if actual expenditure had been above the estimate, then a deduction from revenue would occur.

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.

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

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 Powerlink during the 2027–32 regulatory control period.

6.1 Draft decision

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

Our draft decision is to not accept Powerlink's proposal and to apply a CESS revenue decrement amount of \$138.3 million (\$2026–2027) across the 2027–32 regulatory control period. This is the net result of a \$161.5 million CESS penalty calculation for the 2022–27 regulatory control period, partially offset by a CESS carryover true up for 2021–22 of \$23.2 million (both \$2026–2027).

Our draft decision of a \$138.3 million decrement is a \$1.8 million larger penalty than Powerlink's forecast CESS revenue decrement of \$136.5 million (\$2026–2027). Powerlink calculated this as a \$136.4 million CESS penalty, with a CESS carryover true up for 2021–22 of a further \$0.1 million (\$2026–2027) decrement.

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

- more recent inflation figures
- an updated weighted average cost of capital (WACC) input information
- an updated forecast capex input information (including cost pass through for Security of Critical Infrastructure (SoCI) Act reforms⁷)
- adjustments to actuals in line with the Roll Forward Model (RFM), including our adjustments for the misallocation of the Advanced Energy Management System (AEMS) project costs and the regulatory treatment of the Pinkenba site acquisition.⁸

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.

⁷ AER, [AER decision on Powerlink's cost pass through application for SoCI Act reforms](#), July 2026.

⁸ AER, *Powerlink transmission determination 2027–32 RFM model*, September 2026.

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 2021–22 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	Total
CESS revenue increment as per NER 6.4.3(a)(5)	(32.29)	(32.29)	(32.29)	(32.29)	(32.29)	(161.47)
CESS carryover true-up for 2021–22	4.63	4.63	4.63	4.63	4.63	23.16
AER draft decision CESS	(27.66)	(27.66)	(27.66)	(27.66)	(27.66)	(138.31)

Note: Numbers may not sum due to rounding.

Source: AER analysis; Powerlink, *CESS Model*, January 2026; Powerlink, *CESS True Up Model*, January 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 Powerlink in the 2027–32 regulatory control period.⁹

6.2 Powerlink’s proposal

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

Powerlink proposed a CESS revenue decrement of \$136.4 million (\$2026–2027) for the 2022–27 regulatory control period. This reflects an expected overspend against the AER's regulatory allowance.¹⁰

6.2.2 Final year actual capex true-up for 2021–22

Powerlink provided a true-up model with a true-up value decrement of \$0.1 million (\$2026–2027).¹¹

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

Powerlink proposed to apply the 2025 Guidelines in the 2027–32 regulatory control period.¹²

6.3 Assessment approach

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

⁹ NER, cl 6A.6.5A; AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025.

¹⁰ Powerlink, *2027-32 Revenue Proposal*, January 2026, pp 140–141.

¹¹ Powerlink, *2027-32 Revenue Proposal*, January 2026, pp 140–141.

¹² Powerlink, *2027-32 Revenue Proposal*, January 2026, pp 140–141.

- the revenue effects on Powerlink from applying the CESS in the 2022–27 regulatory control period¹³
- whether or not to apply the CESS to Powerlink in the 2027–32 regulatory control period and how any applicable scheme will apply.¹⁴

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.¹⁵ 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 Powerlink for the 2027–32 regulatory control period, and the details of the scheme, we must:¹⁶

- make that decision in a manner that contributes to the capex incentive objective¹⁷
- take into account the CESS principles,¹⁸ the capex objectives and if relevant the opex objectives,¹⁹ the interaction with other incentive schemes as they apply to the particular service provider,²⁰ and the circumstances of the service provider.²¹

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 Powerlink's overall forecast revenue requirement for the 2027–32 regulatory control period.

The CESS relates to other incentives Powerlink faces to incur efficient opex, conduct demand management, and maintain or improve service levels. Related schemes include the efficiency benefit sharing scheme for opex, service target performance incentive scheme service levels, and the demand management incentive allowance mechanism. We aim to

¹³ NER, cl. 6A.5.4.

¹⁴ NER, cl. 6A.14.1(5A).

¹⁵ 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.

¹⁶ NER, cl. 6A.6.5A(e).

¹⁷ NER, cl. 6A.6.5A(e)(3); the capex incentive objective is set out in cl. 6A.5A(a).

¹⁸ NER, cl. 6A.6.5A(e)(4)(i); the CESS principles are set out in cl. 6A.6.5A(c).

¹⁹ 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).

²⁰ NER, cll. 6A.6.5A(e)(4)(i) and 6A.6.5A(d)(1).

²¹ NER, cl. 6A.6.5A(e)(4)(ii).

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 draft decision

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

Our draft decision is for a CESS decrement of \$161.5 million (\$2026–2027), which is a \$25.1 million larger penalty than Powerlink’s proposed decrement of \$136.4 million (\$2026–2027). We have adjusted for:

- modelling inputs such as CPI and the WACC to reflect more up-to-date information
- Powerlink’s forecast capex to include the SoCI Act cost pass through decided on July 2026
- Powerlink’s actual capex reflecting our decision on the AEMS project and Pinkenba site.

For the AEMS project overspend incurred between 2018–25, Powerlink proposed to absorb these costs by recognising the amount as an asset disposal in 2024–25 period. While we accept Powerlink’s decision to absorb these costs, we disagree with this approach. We updated the RFM by reducing the actual capex reflecting the years the overspend amount was incurred.

For the Pinkenba site we did not accept Powerlink’s approach to include capex into the opening RAB as of 1 July 2027. Instead, we added the capex to the 2024–25 actual capex inputs in the RFM which reflects the financial year in which the capex was incurred and the site was acquired. Our reasons for these decisions are set out in Attachment 1 and Attachment 2.

In calculating the CESS, we apply the most up to date figures for CPI, WACC, forecast capex and our decision on actual capex. These matters influence our decision on CESS increment. Therefore, our adjustments to the AEMS project disposals and timing of the Pinkenba site added to the CESS decrements applicable for Powerlink’s 2027–32 regulatory control period.

We received one submission regarding the CESS from the Consumer Challenge Panel sub panel 34 (CCP34). The CCP34 submission suggested that the current CESS incentivises networks to forecast higher capex.²² It also considered that there should be some flexibility in how we apply the incentive scheme.²³

The NER sets out the framework of the incentive schemes, which are set at the beginning of the regulatory control period. We do not have the discretion to move away from the application of the scheme after it is set. In our 2025 review of the capital expenditure incentive guidelines, we considered whether to allow a retrospective adjustment for CESS penalties.²⁴ We amended the Guideline to allow for a limited retrospective adjustment to

²² CCP34, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, pp 16–17.

²³ CCP34, [Submission – Powerlink 2027–32 electricity transmission revenue proposal](#), May 2026, pp 16–17.

²⁴ AER, [Capital Expenditure Incentive Guidelines Review 2025 – Explanatory Statement for Final Guidelines](#), August 2025.

large contingent projects, including Integrated System Plan projects.²⁵ The capital expenditure incentive guidelines do not allow flexibility to amend CESS penalties in a standard revenue determination process.

We acknowledge that forecast error may arise due to information asymmetry. However, our 2021 review of incentive schemes for networks found that the application of the CESS reduced forecast error. This has been the result of our significant investment in developing our regulatory assessment toolkit.²⁶

6.4.2 Final year actual capex true-up for 2021–22

Our draft decision includes a true-up adjustment of \$23.2 million (\$2026–2027) to account for the updated actual capex for 2021–22. This is a \$23.3 million larger adjustment than Powerlink’s proposed decrement of \$0.1 million (\$2026–2027).

Our adjustments for the AEMS project overspend also impacted the CESS true up calculation. For the AEMS project capex incurred before 2021–22, we consider it appropriate to adjust the overspend amount for inflation and remove it from the earliest year available in the RFM, which was 2021–22. Our reason for this decision is set out in Attachment 1 – Building block approach.

As described in section 6.4.1 above, we mechanically apply the most up to date RFM values when calculating the CESS increments. Our decision on the AEMS project for capex incurred prior to 2021–22 reduced Powerlink’s actual capex for the 2021–22 period. This ultimately increases Powerlink’s true-up adjustment.

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

The reasons for our preference for a CESS are set out in our capital expenditure incentive guideline.²⁷ In developing the Guideline we took into account the capex incentive objective, capex criteria, capex objectives and the National Electricity Objective.

Our draft decision is to apply the CESS, as set out in the 2025 Guidelines, to Powerlink in the 2027–32 regulatory control period.²⁸

The CESS is needed to provide Powerlink with a continuous incentive to pursue efficiency gains. 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. This approach is consistent with Powerlink’s revenue proposal.²⁹

²⁵ AER, [Capital Expenditure Incentive Guidelines Review 2025 – Explanatory Statement for Final Guidelines](#), August 2025.

²⁶ AER, *Review of incentive schemes: Options for the Capital Expenditure Sharing Scheme – Position Paper*, August 2022, pp 7–10.

²⁷ AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025.

²⁸ NER, cl 6A.6.5A; AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025.

²⁹ Powerlink, *2027-32 Revenue Proposal*, January 2026, pp 140–141.

Glossary

Term	Definition
AEMS	Advanced Energy Management System
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
NER	national electricity rules
opex	operating expenditure
SoCI	Security of Critical Infrastructure
TNSP	transmission network service provider
WACC	weighted average cost of capital