REVENUE PROPOSAL 2019 - 2023

Attachment 10

Capital Expenditure Sharing Scheme

28 March 2017

ElectraNet

Company Information

ElectraNet Pty Ltd (ElectraNet) is the principal electricity transmission network service provider (TNSP) in South Australia.

For information about ElectraNet visit www.electranet.com.au.

Contact

For enquiries about this Revenue Proposal please contact:

Simon Appleby
Senior Manager Regulation and Land Management
ElectraNet
52-55 East Terrace
Adelaide SA 5000

revenue.reset@electranet.com.au

Copyright and Disclaimer

Note

This attachment forms part of our Revenue Proposal for the 2018-19 to 2022-23 regulatory control period. It should be read in conjunction with the other parts of the Revenue Proposal.

Our Revenue Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 15:

Revenue Proposal Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme (this document)

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Attachment 14 – Negotiated services

Attachment 15 – List of supporting documents

Contents

10. CAPITAL EXPENDITURE SHARING SCHEME 5

10.1 KEY POINTS 5

10.2 INTRODUCTION 5

10.3 BACKGROUND 5

10.4 SCHEME APPLYING FROM 1 JULY 2018 6

10. Capital Expenditure Sharing Scheme

10.1 Key points

- We support the application of the Capital Expenditure Sharing Scheme (CESS) from the commencement of our forthcoming regulatory period, being 1 July 2018.
- We welcome the AER's confirmation that if the AER carries out an ex post review of capital expenditure in accordance with the CESS as part of our current revenue determination, it will be confined to two years in the current period, being financial years 2014–15 and 2015–16.

10.2 Introduction

This attachment presents information relating to the application of the CESS for the forthcoming regulatory period.

The remainder of this attachment is structured as follows:

- Section 10.3 provides background information on the rationale for the CESS, and how the scheme operates.
- Section 10.4 provides information on the scheme that will apply to us from the commencement of the forthcoming regulatory period.

10.3 Background

The AER's framework and approach paper[1] explains that:

- The CESS provides financial rewards for Transmission Network Service Providers (TNSPs) whose capital expenditure becomes more efficient, and financial penalties for those that become less efficient.
- Consumers benefit from improved efficiency through lower network charges in the future.
- The CESS approximates the efficiency gains and efficiency losses by calculating the difference between forecast and actual capital expenditure in each year. It shares these gains or losses between TNSPs and network users.
- Broadly, the objective of the CESS is to ensure that only capital expenditure that meets the capital expenditure criteria under the National Electricity Rules enters the Regulated Asset Base (RAB) that is used to set allowed revenues. Therefore, consumers only fund capital expenditure that is efficient and prudent.
- When the CESS, Efficiency Benefit Sharing Scheme (EBSS) and Service Target Performance Incentive Scheme (STPIS) apply to TNSPs the incentives for improvements in operating expenditure, capital expenditure and service outcomes are more balanced. This encourages businesses to make efficient decisions on when and what type of expenditure to incur, and to efficiently trade off expenditure reductions with service quality and reliability.

[1] AER, Framework and approach for ElectraNet for regulatory control period commencing 1 July 2018, July 2016, pages 19 to 21, available at http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/electranet-determination-2018-23/aer-position.

The AER explains[2]:

> *"The CESS works as follows:*
>
> - *We calculate the cumulative underspend or overspend for the current regulatory control period in net present value terms.*
> - *We apply the sharing ratio of 30% to the cumulative underspend or overspend to work out what the TNSP's share of any underspend or overspend amount should be.*
> - *We calculate the CESS payments taking into account the financing benefit or cost to the TNSP of any underspend or overspend amount.*
> - *The CESS payments will be added or subtracted to the TNSP's regulated revenue as a separate building block in the next regulatory control period.*
>
> *Under the CESS a TNSP retains 30% of the benefit or cost of an underspend or overspend amount, while consumers retain 70% of the benefit or cost of an underspend or overspend amount. This means that for a one dollar saving in capital expenditure the TNSP keeps 30 cents of the benefit while consumers keep 70 cents of the benefit. Conversely, in the case of any overspend, the TNSP pays for 30 cents of the cost while consumers bear 70 cents of the cost."*

10.4 Scheme applying from 1 July 2018

The AER's framework and approach paper states that the latest version of the CESS in existence at the commencement of our forthcoming regulatory period will apply to us. The AER expects this to be CESS version 1 (November 2013) as set out in the AER's capital expenditure incentive guideline.

Under the CESS an ex post review of any capital expenditure over-spend within a regulatory period applies, but this assessment will be undertaken as part of the revenue determination that takes place after the end of the relevant regulatory period.

On 30 October 2015 we wrote to the AER to enquire about the AER's intentions to undertake an ex post capital expenditure review in relation to the current (2014 – 2018) regulatory period. We noted that any ex post review may only be applied to the years following the introduction of the CESS guideline in November 2013. We also noted that the Rules[3] provide for any ex post review to exclude the last two years of the current regulatory period. Accordingly, we submitted that any ex post review of capital expenditure should be applied only to the financial years 2014–15 and 2015–16.

In its AER's framework and approach paper, the AER states[4]:

> *"Our preliminary view is that, should the AER determine that an ex post review is to be carried out, it will be confined to the two years identified by ElectraNet."*

We welcome the AER's confirmation regarding this matter.

We note that the CESS will reward capital expenditure efficiency improvements to the benefit of customers in accordance with the National Electricity Objective. Accordingly,

---

2 Ibid, page 19.

3 Clause S6A.2.2A(a1).

4 AER, Framework and approach for ElectraNet for regulatory control period commencing 1 July 2018, July 2016, page 20, available at http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/electranet-determination-2018-23/aer-position.

we support the application of the CESS from the commencement of our forthcoming regulatory period (being 1 July 2018). We also note that under the CESS, the capital expenditure allowance is calculated as our approved allowance (as determined by the AER prior to the start of the regulatory control period), plus any adjustments the AER allows from pass-throughs, reopening of capital expenditure or contingent projects[5].

[5] AER, Better Regulation - Capital Expenditure Incentive Guideline, November 2013 section 2.3.1, page 6.

ElectraNet

electranet.com.au

PO Box 7096
Hutt St Post Office
ADELAIDE SA 5000

1800 243 853