Draft Decision

Ausgrid Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 9

Capital expenditure sharing scheme

September 2023

AUSTRALIAN ENERGY REGULATOR

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9 Capital expenditure sharing scheme

The capital expenditure sharing scheme (CESS) provides financial rewards for network service providers (NSP) whose capital expenditure (capex) becomes more efficient and financial penalties for those that become less efficient. Customers benefit from improved efficiency through lower regulated prices. We first applied the CESS to Ausgrid in the 2014–19 regulatory control period.

This attachment sets out our decision for both the determination of the revenue impacts as a result of the CESS applying in the 2019–24 regulatory control period, and the application of the CESS for Ausgrid in the 2024–29 regulatory control period.

The CESS approximates efficiency gains and efficiency losses by calculating the difference between forecast and actual capex. It shares these gains or losses between service providers and consumers.

The CESS mechanism was recently updated in April 2023. The changes to the CESS only apply to its application in the 2024–29 period and onwards. In this attachment, our decision on the CESS revenue increments for the 2024–29 period uses the CESS mechanism before it was updated.[1]

For spending in the current period, the CESS applies 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 the cumulative underspend or overspend to work out what the service provider's share of the underspend or overspend should be.
- 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 or subtracted to the service provider's regulated revenue as a separate building block in the next regulatory control period.

9.1 Draft decision

9.1.1 Revenue impacts in the 2024–29 period

Our draft decision is to apply a CESS revenue increment amount of $110.0 million ($2023–24) across the 2024–29 regulatory control period. This is from the application of the CESS in

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1 That is, for CESS revenue increments based on spending in the 2019–24 regulatory period, we follow this guideline: AER, *AER capital expenditure incentive guideline - November 2013*, November 2013. However, in applying the CESS in the 2024–29 period, we refer to this guideline: AER, *AER - Final decision - Capital expenditure incentive guideline - 28 April 2023*, April 2023.

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 AER, *AER - Final decision - Capital expenditure incentive guideline*, April 2023, pp. 7–9.

the 2019–24 regulatory control period and the corresponding CESS carryover true-up for 2018–19 for both distribution and transmission. This is $24.3 million less than Ausgrid's forecast of $134.3 million.

The CESS increment arises as a result of an underspend in total capex applicable to the CESS against the forecast for the 2019–24 period. Our draft decision on the revenue impact of the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up 2018–19 is summarised in Table 9.1 for distribution and transmission.

Table 9.1 CESS revenue increments in 2024–29 ($ million, 2023–24)

Segment	CESS item	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Distribution	CESS revenue increment as per NER 6.4.3(a)(5)	27.4	27.4	27.4	27.4	27.4	136.9
	CESS carryover true-up for 2018–19	-5.3	-5.3	-5.3	-5.3	-5.3	-26.4
	AER draft decision CESS	**22.1**	**22.1**	**22.1**	**22.1**	**22.1**	**110.5**
Transmission	CESS revenue increment as per NER 6.4.3(a)(5)	1.4	1.4	1.4	1.4	1.4	6.8
	CESS carryover true-up for 2018–19	-1.5	-1.5	-1.5	-1.5	-1.5	-7.3
	AER draft decision CESS	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.5**
Total	**AER draft decision CESS**	**22.0**	**22.0**	**22.0**	**22.0**	**22.0**	**110.0**

Note: Numbers may not sum due to rounding.
Source: AER analysis. Ausgrid, *Ausgrid - RIN.13.a - 2024-2029 - Reset RIN - workbook 4 - CESS distribution - 31 Jan 2023*, January 2023; and Ausgrid, *Ausgrid - RIN.13.b - 2024-2029 - Reset RIN - workbook 4 - CESS transmission - 31 Jan 2023*, January 2023.

Given the timing of this draft decision, we calculated the CESS revenue increments in Table 9.1 using estimates of Ausgrid's capex for 2022–23 and 2023–24 regulatory years. The CESS revenue increment we calculated ($110.0 million) is different to the revenue increment that Ausgrid proposed ($134.3 million) because we:

- updated modelling inputs, including inflation, rate of return and an adjustment for 2018–19 to reflect the difference between actual and estimated capex.
- have not accepted the proposed exclusions for Advanced Distribution Management System (ADMS), cyber security, and the network innovation program.
- applied updated values for property asset disposals and capitalised leases.

9.1.2 Application of CESS in the 2024–29 regulatory control period

We will apply the CESS as set out in the updated capital expenditure incentives guideline.[4] The reasons for adopting this updated CESS are set out in our final decision for the review of

[4] AER, *AER - Final decision - Capital expenditure incentive guideline*, April 2023, pp. 3–9.

incentive schemes for networks, and the final decision for capital expenditure incentive guideline.[5] This is consistent with the proposed approach we set out in our framework and approach paper.[6]

9.2 Ausgrid's proposal

9.2.1 CESS revenue increments from the 2019–24 regulatory control period

Ausgrid proposed a CESS increment of $168.1 million ($2023–24) for the 2024–29 regulatory control period. Ausgrid's proposal did not explain the drivers of the material CESS increment.

9.2.2 Final year actual capex true-up for 2018–19

Ausgrid submitted a true-up calculation method, which proposed a true-up decrement of $33.8 million ($2023–24) to be added to its CESS revenue increments in the 2024–29 period.[7]

9.2.3 Application of CESS in the 2024–29 regulatory control period

Ausgrid proposed to apply the CESS in the 2024–29 regulatory period.[8] Ausgrid proposed to exclude the network innovation program in 2024–29 from the CESS calculation.

9.3 Assessment approach

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

- the revenue impacts on Ausgrid arising from applying the CESS in the 2019–24 regulatory control period;[9] and
- whether or not to apply the CESS to Ausgrid in the 2024–29 regulatory control period and how any applicable scheme will apply; [10]

We must determine the appropriate revenue increments or decrements (if any) for each year of the 2024–29 regulatory control period arising from the application of the CESS during the 2019–24 regulatory control period.[11]

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5 AER, *AER - Final decision - Review of incentive schemes for networks*, April 2023, pp. 14-22; and AER, *AER - Final decision - Capital expenditure incentive guideline*, April 2023.

6 AER, *AER - Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy for the 2024-29 regulatory control period,* 29 July 2022, p. 47.

7 Ausgrid, *Ausgrid - Att. 4.1.h - FY19 CESS adjustment calculation for distribution*, January 2023; and Ausgrid, *Ausgrid - Att. 4.1.i - FY19 CESS adjustment calculation for transmission*, January 2023.

8 Ausgrid, *2024–29 Regulatory Proposal*, January 2023, p. 146.

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

10 NER, cl. 6.12.1(9).

11 Increments or decrements arising from the application of applicable incentive mechanisms, including any capital expenditure sharing scheme, form one of the building blocks that must be 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).

In deciding whether to apply a CESS to Ausgrid for the 2024–29 regulatory control period, and the nature of the details of the scheme, we must: [12]

- make that decision in a manner that contributes to the capex incentive objective[13]
- take into account the CESS principles,[14] the capex objectives and, where relevant, the operating expenditure (opex) objectives,[15] the interaction with other incentive schemes,[16] and the circumstances of the service provider.[17]

Broadly, the capex incentive objective is to ensure that only capex that meets the capex criteria enters the RAB used to set prices. Therefore, consumers only fund capex that is efficient and prudent.

9.3.1 Interrelationships

The approval of CESS revenue increment determines the associated CESS building block as part of Ausgrid's overall forecast revenue requirement for the 2024–29 regulatory control period.

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

9.4 Reasons for draft decision

Our draft decision is to include an overall CESS revenue increment of $110.0 million ($2023–24) in the 2024–29 period, comprising a $143.7 million increment for the 2019–24 capex performance and a $33.7 million decrement for the final year true-up. This is $24.3 million lower than Ausgrid's proposed CESS revenue increment of $134.3 million. We set out our reasons in the sections below.

9.4.1 CESS revenue increments from the 2019–24 regulatory control period

Our draft decision includes a CESS increment of $143.7 million for Ausgrid's capex performance in the 2019–24 period. The differences between Ausgrid's proposal and our draft decision reflects adjustments for the proposed exclusions, updates to asset disposals

12 NER cl. 6.5.8A(e).

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

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

15 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).

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

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

and capitalised leases, and modelling inputs such as CPI and the WACC to reflect more up-to-date information. We will also update these inputs, where relevant, in our final decision.

9.4.1.1 Assessment of key drivers

In our assessment, we sought to understand the drivers of Ausgrid's material CESS increment because limited information about the drivers was provided in the regulatory proposal. We requested information from Ausgrid and considered stakeholder submissions where applicable. As we discuss further below, the key differences between our draft decision and Ausgrid's proposal are:

- $18.6 million for applying the CESS to all capex categories, rather than Ausgrid's proposed exclusions for ADMS, cyber security and innovation.
- $3.9 million for adjustments to capitalised leases and asset disposals.[18]

Ausgrid underspent its total capex applicable to the CESS by $531 million ($2023–24) in the 2019–24 period.[19] In response to our Issues Paper, Origin Energy submitted its concerns with Ausgrid's proposed CESS increment and noted we should explain the basis for any underspending. We engaged with Ausgrid to understand the drivers of this underspend further, including whether deferrals were relevant. Ausgrid did not consider that the below three criteria had been met for a deferral adjustment and that the capex component of the underspend was not material.[20]

The CESS requires the following three criteria must be satisfied before we apply a CESS adjustment:[21]

1. the amount of the estimated underspend in capex in the current regulatory control period is material
2. the amount of the deferred capex in the current regulatory control period is material
3. total approved capex in the next regulatory control period is materially higher than it is likely to have been if a material amount of capex was not deferred in the current regulatory control period.

In this case, we are satisfied a deferral adjustment is not required because there was not a material underspend in capex. Table 9.2 summarises the key components of Ausgrid's proposed CESS increment. Ausgrid's response highlighted that actual asset disposals exceeding the forecast were the primary driver of the proposed CESS increment.

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18 Ausgrid, *Response to information request 019,* April 2023; and Ausgrid, *Response to information request 046*, June 2023.

19 The total capex applicable to the CESS includes: capex, customer contributions, asset disposals and other excludable capex. We have not included Ausgrid's proposed exclusions for ADMS, cyber security or innovation in this underspend calculation.

20 Ausgrid, *Response to information request 030*, May 2023.

21 AER, *Capital Expenditure Incentive Guideline for Electricity Networks Service Providers*, November 2013, p. 9.

Table 9.2 Drivers of Ausgrid's proposed CESS increment from the 2019–24 period ($ million, $2023–24)

Component	CESS increment / decrement
Capex	-13.3
Customer contributions	-17.8
Disposals	180.6
Exclusions	18.6
Total proposed CESS increment	**168.0**

Source: AER analysis of Ausgrid's distribution and transmission CESS models. Numbers may not sum due to rounding.

In future regulatory proposals, we encourage Ausgrid to submit further information to explain and clarify the drivers of its proposed CESS, especially when a significant CESS increment is proposed.

We discuss asset disposals, exclusions and 2019–24 capex amendments in further detail below.

9.4.1.2 Asset disposals

Asset disposals were the main component of the CESS increment due to actual asset disposals exceeding the forecast by $610 million ($2023–24). Ausgrid noted this was driven by several property sales including a depot and bringing forward property sales as part of its 'affordability measures'.[22] Ausgrid provided analysis indicating a net revenue reduction from these initiatives, outweighing the CESS increment from the difference between forecast and actual asset disposals. However, in this instance this was primarily due to the reverse depreciation approach applied by Ausgrid which returned a large proportion of the gross proceeds from its property sales back to customers immediately over the 2024–29 period. This is discussed in Attachment 4 – regulatory depreciation section 4.4.1.[23]

Ausgrid also noted an unexpected compulsory acquisition by Sydney Metro, which we estimate to contribute about $63 million to the CESS increment. This is the first time we have observed a compulsory acquisition of this nature and its corresponding materiality on incentive payments.

The distribution business is suitably compensated for this compulsory acquisition, and consumers are paying an additional incentive payment on top of this. We do not consider this outcome is consistent with the CESS principle that the business should be rewarded for efficiency gains.[24] In this case, consumers will pay a higher CESS in the 2024–29 period for an asset disposal that is not related to efficiency gains or related to providing the distribution

22 Ausgrid, *2024–29 Regulatory Proposal*, January 2023, p. 11.

23 Ausgrid, *Response to information request 030*, May 2023, p. 6.

24 NER cl. 6.5.8A(c)(1).

business with an incentive to dispose of assets because the compulsory acquisition is beyond Ausgrid's control.

The distinction between a compulsory acquisition and other asset disposals is that the compulsory acquisition is beyond the control of the network service provider and therefore unrelated to a choice or decision of the network service provider to dispose of assets.

While we are not able to exclude this amount under the CESS Guideline, Ausgrid is not limited in forgoing part or full amount of the CESS associated with this compulsory acquisition. We encourage Ausgrid to consider whether this element can be waived from its CESS increment in its revised proposal as it does not relate to capital efficiency, and the compulsory acquisition is outside of Ausgrid's control. We also seek stakeholder views on how this compulsory acquisition may be treated and encourage Ausgrid to engage with its customers on this.

Accurate forecasting of asset disposals is important. We seek to minimise forecasting error where possible, while acknowledging circumstances can change unexpectedly in the regulatory control period. As discussed in the Attachment 5 on capital expenditure, we engaged with Ausgrid to ensure that its asset disposals forecast is reasonable and realistic with the available information to minimise forecasting error. Ausgrid subsequently included an additional $69 million for forecast asset disposals in the 2024–29 period.

9.4.1.3 Exclusions

Under our CESS Guideline, there are certain defined circumstances in which we may make exclusions, which are for adjustments for the deferral of capex and ex-post exclusions from the RAB. Therefore, by default the CESS applies to all categories of capex (with no exclusions) and we are only able to adjust if certain criteria are met for the mentioned circumstances. The exclusions we are able to adjust for are to ensure that only prudent and efficient capex is included in the CESS incentive payment calculation.

In the 2019–24 review, Ausgrid and its customers reached an agreement that part of customer support for the three programs (ADMS, cyber security and innovation) would be that these are excluded from the CESS to address customer concerns. Customers were concerned with the forecasting risk with the programs and sought to minimise the risk of Ausgrid not spending the money and being rewarded with a CESS increment. However, the risk of overspending was not contemplated.

Our 2019–24 final decision did not agree with or endorse the proposed exclusions, and we noted:[25]

- the proposed exclusions were a result from a consultation process with customers
- the proposed exclusions were not consistent with our CESS Guideline, which only allows us to make exclusions in certain circumstances when adjusting for deferrals and ex-post exclusions from the RAB

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[25] AER, *Final decision – Ausgrid 2019–24 – Capital expenditure sharing scheme,* April 2019, p. 9.

- Ausgrid should still face an incentive to undertake the programs efficiently, and if the basis for any underspend was due to deferrals, then the appropriate way to achieve this exclusion would be through the CESS deferral mechanism
- we would take into account any information from Ausgrid and the Network Innovation Advisory Committee (NIAC) in making our assessment of the 2024–29 revenue adjustment for CESS.

Our assessment of the proposed exclusions for 2019–24 against the NER requirements

We make the assessment of exclusions taking into account the principles set out in the NER clause 6.5.8A, including the capital expenditure incentive objective and the capital expenditure sharing scheme principles. For the following reasons, we do not consider that the proposed exclusions for the 2019–24 period are consistent with the CESS principles and CESS Guideline:

- We make a decision on total capex and do not approve specific projects or programs. We assess the prudency and efficiency of specific projects/programs (amongst other things) to inform the prudency and efficiency of the total capex forecast. Businesses can spend more or less than the total capex forecast as circumstances change throughout the regulatory control period. Therefore, in this proposed instance, and for distribution determinations more generally, we consider it is inconsistent to pre-determine which projects or programs to exclude from the CESS when the forecast is determined at the total level.
- Our default position is to apply the CESS to all categories of capex, with only limited circumstances where we can apply exclusions after any inefficient or imprudent expenditure has occurred (ex-post exclusion) or expenditure has been delayed (in the case of deferred capex). As noted in our final decision for Ausgrid's 2019–24 determination,[26] we considered that the deferral mechanism was the appropriate way to account for innovation exclusions if the reason was due to deferred expenditure. We note the distribution business is not limited in forgoing a part or full amount of CESS at the time of the CESS calculation, which could achieve the same result for consumers if the concern is with a distribution business underspending the forecast for certain capex programs.
- There are incentives and outcomes that can arise from pre-determining exclusions that are inconsistent with our ex-ante regulatory framework and are not in the long term interest of consumers. By determining project/program level exclusions before the expenditure has occurred, this can result in the incentive to categorise or allocate investment to the excluded category so that it is not included in the CESS calculation. While the intent of the proposed exclusion for the 2019–24 period was to address underspending, we note in this instance there is an outcome that is not in the long term

[26] AER, *AER – Final decision – Ausgrid distribution determination 2019-24 – Attachment 9 – Capital expenditure sharing scheme,* 30 April 2019, p. 9.

interest of consumers where an overspend would also be excluded and would result in a CESS increment.[27]

A key risk that does not appear to have been contemplated by Ausgrid and its customer representatives at the time of the 2019 review was how the proposed exclusions would be treated in the event of an overspend on the excluded categories. To illustrate, we compare the two calculation scenarios between our default approach and Ausgrid's proposed approach in the 2019–24 period:

- Our default approach applies the CESS to all categories of capex. Therefore, the CESS is calculated by comparing the actual capex for all categories against the forecast capex for all categories. All else equal, the result of this calculation is a CESS increment of $149.5 million for the 2019–24 period.
- Ausgrid's proposed approach with exclusions involves removing amounts from the forecast and actual capex in the CESS calculation. For the forecast capex, Ausgrid removed the forecast amount for the three programs (totalling $164.8 million, $2023–24) from the total forecast. For the actual capex, Ausgrid removed the actual/estimated capex (totalling $220.7 million, $2023–24) from the total actual/estimated capex. As can be seen, the actual capex is greater than the forecast capex for the excluded categories by $55.9 million. The result of this calculation is a CESS increment of $168.1 million.

This comparison shows that Ausgrid's approach to the exclusions results in a higher CESS increment by $18.6 million, so customers are worse off and would pay more revenue in the 2024–29 period due to an overspend on the excluded categories in the 2019–24 period. This is counter to the CESS principle of rewarding efficiencies because this is rewarding inefficiencies (overspending).[28] This is not in the interest of consumers.

If Ausgrid were to underspend on its proposed excluded categories, then our default CESS calculation would be higher than Ausgrid's. However, we note that a distribution business is not limited in proposing a lower CESS amount than our default approach thereby waiving a part or full amount of its CESS at the time of the CESS calculation in the subsequent period to address customer concerns with underspending.

As noted in our 2019–24 decision, we have had regard to the available information at the time of making the 2024–29 revenue adjustment. We have had regard to the information on actual/estimated capex, information requests, and stakeholder submissions.

Ausgrid's independent NIAC members and its Reset Customer Panel (RCP) both submitted support for exclusions for ADMS, cyber security, and innovation programs in the 2019–24 period.[29] We acknowledge that the RCP is aware of the $18.6 million CESS increment and continues to support the exclusions as this reflects the agreement reached between

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27 An overspend occurs when the actual spend exceeds the forecast. So, if the forecast and the actual spend for an overspent program are both excluded from the CESS calculation, then a larger number is subtracted from the total actual capex than from the total forecast capex. Therefore, at a total capex level, the gap between forecast and actual increases and consumers would pay a CESS increment for an overspend (all else equal). This is not in the interest of consumers.

28 NER cl. 6.5.8A(c)(1).

29 Ausgrid's Reset Customer Panel and independent NIAC members, *Ausgrid's RCP, VoC, NIAC combined - 2024-29 Electricity Determination - Ausgrid,* May 2023, pp. 4–9, 49–50.

customer advocates and Ausgrid based on circumstances in 2018.[30] We have had regard to these submissions including the context provided for the original agreement and we acknowledge the support for the exclusions. For the reasons highlighted, we do not agree with the proposed exclusions, and we consider the desired outcome could be achieved by forgoing the CESS increment associated with underspends, which Ausgrid can agree with its customers. We have used our default approach by applying the CESS to all capex categories in the 2019–24 period. We welcome further submissions on this.

9.4.1.4 Amendments to capex in 2019–24

We engaged with Ausgrid on amendments to asset disposals and the treatment of capitalised leases in the 2019–24 period, and Ausgrid has confirmed the values used for these categories.[31] We have reflected these changes in the CESS calculation, which result in a decrement of $3.9 million.

9.4.2 Final year actual capex true-up for 2018–19

Our draft decision includes a true-up adjustment of -$33.7 million ($2023–24) to account for the updated actual capex for 2018–19. This is $0.04 million more than Ausgrid forecast true-up adjustment of -$33.8 million.

Ausgrid submitted a true-up calculation for both distribution and transmission. We found Ausgrid's approach appropriately calculated the true-up amount, subject to minor adjustments to inflation and WACC when calculating the net present value of the CESS increment/decrement due to the difference between the 2018–19 estimate and the actual capex.

9.4.3 Application of CESS in the 2024–29 regulatory control period

9.4.3.1 Updates to the CESS Guideline in April 2023

After Ausgrid submitted its initial proposal, the AER published its final decision on its review of incentive schemes for regulated networks in April 2023. This included an update to the workings of the CESS mechanism.[32]

The changes to the CESS mechanism will affect the application of the CESS to Ausgrid starting in the 2024–29 period.

The new guideline contains the following main changes to the CESS mechanism:

- application of a lower sharing factor of 20% to any underspend amount greater than 10% of the approved forecast capital expenditure allowance; and
- new transparency measures which require NSPs to explain variations between capital expenditure forecasts and outcomes.[33]

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30 Ausgrid, *Response to information request 030*, June 2023, p. 2; and, Ausgrid's Reset Customer Panel, *Ausgrid's RCP, VoC, NIAC combined - 2024-29 Electricity Determination - Ausgrid*, 11 May 2023, p. 8.

31 Ausgrid, *Response to information request 019,* April 2023; and Ausgrid, *Response to information request 038*, June 2023.

32 AER, *AER - Final decision - Capital expenditure incentive guideline*, 28 April 2023.

33 AER, *AER - Final decision - Capital expenditure incentive guideline*, 28 April 2023, p. 1.

More information on the application of the updated CESS is available in our April 2023 capital expenditure incentive guideline.

9.4.3.2 Proposed exclusions from the CESS in the 2024–29 period

Ausgrid proposed its capex for the network innovation program should be excluded from the application of the CESS in the 2024–29 period. This is also supported by the RCP and independent NIAC members.[34] Ausgrid also noted that the RCP considers a portion of resilience capex should be excluded from the CESS in the 2024–29 period,[35] although Ausgrid did not submit this in its proposal.[36]

We have discussed our considerations of CESS exclusions in detail in section 9.4.1.3. Exclusions of this nature are not consistent with our CESS Guideline. Our default approach is to apply the CESS to all capex categories, and we can only adjust this in certain circumstances. If Ausgrid and its customers agree that some categories should be excluded on the basis that there is a risk of underspending, then Ausgrid can propose a lower CESS amount than our default approach in the subsequent 2029–34 period when determining the revenue adjustments. However, any exclusion from the CESS calculation should not result in a higher CESS than our default approach as this is not what is intended by the exclusion and the support from customers. Further, the calculation approach should be transparent and should be clearly explained to us and customers why this is aligned with the intent of any agreement with customers and why it is in the long term interest of consumers.

34 Ausgrid's Reset Customer Panel and independent NIAC members, *Ausgrid's RCP, VoC, NIAC combined - 2024-29 Electricity Determination - Ausgrid,* May 2023, pp. 9, 50–51.

35 Ausgrid, *2024–29 Regulatory Proposal*, January 2023, p. 146.

36 Ausgrid, *Response to information request 030*, May 2023, pp. 4–5.

Shortened forms

Term	Definition
ADMS	Advanced Distribution Management System
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
NER	national electricity rules
NIAC	Network Innovation Advisory Committee
NSP	network service provider
opex	operating expenditure
RAB	regulatory asset base
RCP	Reset Customer Panel
RIN	regulatory information notice
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital