Attachment 9 - Capital Expenditure Sharing Scheme

2025–30 Regulatory Proposal

January 2024

SA Power Networks

Empowering South Australia

Company information

SA Power Networks is the registered Distribution Network Service Provider for South Australia. For information about SA Power Networks visit sapowernetworks.com.au

Contact

For enquiries about this Regulatory Proposal please contact:
Richard Sibly
Head of Regulation
SA Power Networks
GPO Box 77 Adelaide SA 5001 sapn2025proposal@sapowernetworks.com.au

Disclaimer

This document forms part of SA Power Networks' Regulatory Proposal to the Australian Energy Regulator for the 1 July 2025 to 30 June 2030 regulatory control period. The Proposal and its attachments were prepared solely for the current regulatory process and are current as at the time of lodgement.

This document contains certain predictions, estimates and statements that reflect various assumptions concerning, amongst other things, economic growth and load growth forecasts. The Proposal includes documents and data that are part of SA Power Networks' normal business processes and are therefore subject to ongoing change and development.

Whilst care was taken in the preparation of the information in this Regulatory Proposal, and it is provided in good faith, SA Power Networks, its officers and shareholders accept no responsibility or liability for any loss or damage that may be incurred by any person acting in reliance on this information or assumptions drawn from it for a different purpose or in a different context.

Copyright

Note

This attachment forms part of our Proposal for the 2025–30 Regulatory Control Period. It should be read in conjunction with the other parts of the Proposal.

Our Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 20:

Document	**Description**
	Regulatory Proposal overview
Attachment 0	Customer and stakeholder engagement program
Attachment 1	Annual revenue requirement and control mechanism
Attachment 2	Regulatory Asset Base
Attachment 3	Rate of Return
Attachment 4	Regulatory Depreciation
Attachment 5	Capital expenditure
Attachment 6	Operating expenditure
Attachment 7	Corporate income tax
Attachment 8	Efficiency Benefit Sharing Scheme
Attachment 9	**Capital Expenditure Sharing Scheme**
Attachment 10	Service Target Performance Incentive Scheme
Attachment 11	Customer Service Incentive Scheme
Attachment 12	Demand management incentives and allowance
Attachment 13	Classification of services
Attachment 14	Pass through events
Attachment 15	Alternative Control Services
Attachment 16	Negotiated services framework and criteria
Attachment 17	Connection Policy
Attachment 18	Tariff Structure Statement Part A
Attachment 18	Tariff Structure Statement Part B - Explanatory Statement
Attachment 19	Legacy Metering
Attachment 20	List of Proposal documentation

Contents

List of tables

1 Overview

The Capital Expenditure Sharing Scheme (**CESS**) provides an incentive for distribution network service providers (**DNSP**s) to only undertake efficient capital expenditure (**capex**) and provides a mechanism to share efficiency gains between DNSPs and customers. Customers benefit from efficiency gains through a lower regulatory asset base (**RAB**) in future regulatory control periods (**RCP**s).

SA Power Networks' carryover for the 2020–25 RCP has been calculated at $23.37 million, in accordance with Version 1 of the CESS applied in our distribution determination for the 2020–25 RCP (**2020 Determination**)[1].

SA Power Networks proposes to apply the newly updated Version 2 of the CESS for the 2025–30 RCP.

2 Rule requirements

The National Electricity Rules (**NER**) requires the annual revenue requirement to include (amongst other things) any revenue increments or decrements for the relevant regulatory year arising from the application of the CESS[2]. The building block determination must also specify how any applicable CESS is to apply to a DNSP in the 2025–30 RCP[3].

The Australian Energy Regulator (**AER**) applied Version 1 of the CESS to SA Power Networks for the 2020–25 RCP as specified in the 2020 Determination. SA Power Networks must calculate the carryover efficiency gain or loss for the 2020–25 RCP in accordance with Version 1 of the CESS and the 2020 Determination[4].

When calculating the annual CESS payments, further adjustments may be made for deferrals of capex, or where the AER excludes capex overspends from the RAB after an ex-post review[5].

In April 2023, the AER completed a review of incentive schemes, including the CESS. The final decision for the incentive schemes review resulted in a number of changes to the CESS, with a new CESS Guideline Version 2 issued incorporating these amendments.

In its final Framework and Approach (**F&A**) paper for the 2025–30 RCP, the AER stated that it intends to apply the new Version 2 of the CESS to SA Power Networks in the 2025–30 RCP[6].

---

1 AER, *Final decision: SA Power Networks determination 2020-21 to 2024-25, Attachment 9 – Capital expenditure sharing scheme*, June 2020.

2 NER 6.4.3(a)(5).

3 NER 6.3.2(a)(3).

4 AER, *Final decision: SA Power Networks determination 2020-21 to 2024-25, Attachment 9 – Capital expenditure sharing scheme*, June 2020.

5 AER, *Better Regulation: Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, November 2013, clause 2.3.1.

6 AER, *Final framework and approach, SA Power Networks 2025–30*, page 20.

3 Carryover amounts for the 2020–25 RCP

The increments and decrements (**carryover amounts**) to be included in the building blocks for the 2025–30 RCP are those arising from the application of the CESS in the 2020–25 RCP.

Incremental efficient gains / losses for each regulatory year of the 2020–25 RCP have been calculated in accordance with Version 1 of the CESS and the 2020 Determination.

SA Power Networks forecasts that it will spend close to its overall capex allowances in the 2020–25 RCP. Whilst there were year to year fluctuations in total expenditure from market conditions, COVID-19 restrictions and reprioritisation between programs, the net total of the forecast variances from the allowance are expected to be minor.

3.1 Capex deferrals in 2020–25

Our capex forecast for the 2025–30 RCP includes two projects deferred from the 2020–25 RCP. We therefore excluded these two deferrals from our CESS calculations to avoid impacting customers. The details of these deferrals are that:

- they involve network augmentation expenditure (**augex**) on upgrading two connection points (at Mount Gambier and Mannum) between our distribution network and Electranet's transmission network – the two projects were deferred due to decisions by Electranet;[7] and
- we expect that these two projects will be required in the 2025–30 RCP at a cost of $13.9 million.

We also identified two additional capex projects that have either been deferred or cancelled.[8] We expect that these two projects will not be required in the 2025–30 RCP and they are not included in our capex forecast. However, even though these two projects are not in our forecast for 2025–30, we are proposing to also exclude these from our CESS calculations.

Further details regarding the capex which was deferred and the circumstances surrounding that deferral can be provided on request by the AER.

3.2 Our estimated and adjusted CESS reward

Estimates of our CESS performance are set out in Table 1[9], and detailed in our CESS model. We estimate to be eligible to receive a CESS reward of $23.4 million in the 2025–30 RCP, as follows:

- our net capex for CESS purposes in the 2020–25 RCP is estimated to be $1,775.5 million ($ nominal) and 0.39 percent above the AER forecast (adjusted for a pass through);
- we voluntarily excluded $28.8 million ($ nominal) from our CESS calculations, by excluding:
  - three capex projects that have been deferred and included in our capex forecast for 2025–30; and
  - two further capex projects that while deferred are not included in our capex forecast for 2025–30;
- the net capex, adjusted for deferred projects, results in a CESS penalty of $11.6 million ($ June 2025) in the 2025–30 RCP;

7 These upgrades are works that we must undertake jointly with Electranet at co-located connection point substations.

8 These projects pertain to: (1) another transmission connection point upgrade costing $5m, driven by an altered decision by Electranet; and (2) a network augex project to upgrade a 66KV sub-transmission line between Myponga and Square Waterhole, driven by changes in our demand forecast and our decision to prioritise capacity upgrades in other 66KV lines (Angle Vale to Virginia, and southern outer metropolitan 66kV lines) presenting higher service risk – we have no plans to proceed with this.

9 Numbers in Table may not add due to rounding.

- whilst the current forecast is for a small overspend in the overall capex allowances in the 2020–25 RCP, no adjustment is required for any ex-post review for efficient capex carried out by the AER. The ex-post review is assessed over the five year period 2018–2023. The net capex over this period was not in excess of the allowance; and
- we adjusted our 2015–20 CESS outcome which was based on an estimate of final year (2019/20) capex at the time, with the actual capex performance now available. Actual capex for 2019/20 was $75.2 million below the AER's forecast. The CESS model calculates a CESS payment of $35.0 million over 2025–30 for this additional outperformance.

Table 1: Actual / estimated CESS payment for 2020–25 RCP ($ million, June 2025)

	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
2015–20 CESS Adjustment	7.00	7.00	7.00	7.00	7.00	34.98
CESS carryover for 2020–25	(2.32)	(2.32)	(2.32)	(2.32)	(2.32)	(11.61)
Total CESS	**4.67**	**4.67**	**4.67**	**4.67**	**4.67**	**23.37**

Our detailed calculation of the CESS payment for 2020–25 set out in Table 1 is contained in the Reset RIN Workbook 4. The CESS adjustment for 2015–20 is calculated in the supporting model provided with this proposal.

Customers will benefit from our lower capex through a lower RAB. This will reduce revenue allowances and prices in future RCPs.

The timing for submission of this 2025–30 Regulatory Proposal means that the CESS outcomes for the 2023/24 and 2024/25 regulatory years are estimates. Actual capex incurred by SA Power Networks for the 2023/24 regulatory year will be updated for the purposes of the AER's draft and final determinations.

As 2024/25 regulatory year expenditure will still be an estimate at the time of the AER's final distribution determination for the 2025–30 RCP (due April 2025), further adjustments may need to be made to the CESS payment for the 2024/25 regulatory year where actual capex for that year is different to the estimate. Consistent with the CESS, these adjustments will be made in our distribution determination process for the 2030–35 RCP[10].

10 AER, *Better Regulation: Capital Expenditure Incentive Guideline for Electricity Network Service Providers*, November 2013, cl 2.4.

4 CESS to apply for the 2025–30 RCP

In its F&A for the 2025–30 RCP, the AER states that it proposes to apply Version 2 of the CESS to SA Power Networks in the 2025–30 RCP[11]. SA Power Networks will be rewarded for making efficiency gains, whilst electricity customers will benefit through lower prices from a lower RAB in future RCPs. Conversely, we will be penalised for an efficiency loss (by spending more than our capex allowances) through the CESS.

By applying the CESS, the Efficiency Benefit Sharing Scheme, the Service Target Performance Incentive Scheme, and the new Demand Management Incentive Scheme to SA Power Networks, the incentives for capex, operating expenditure, service performance and for identifying and undertaking efficient demand management options will be balanced to promote efficient decision making in relation to expenditure and service quality.

SA Power Networks proposes that the AER apply Version 2 of the CESS for the 2025–30 RCP.

The legacy metering component of standard control services will be excluded from the CESS considerations, as per the AER's Guidance note for legacy metering services, released October 2023. We also propose that the capex component of the Innovation Fund be excluded from CESS.

[11] AER, *Final framework and approach, SA Power Networks 2025–30*, July 2023, page 20.

Glossary

Acronym / term	Definition
AER	Australian Energy Regulator
Augex	Augmentation expenditure
Capex	Capital expenditure
Carryover amounts	Increments and decrements
CESS	Capital Expenditure Sharing Scheme
DNSP	Distribution network service provider
F&A	Framework and approach
NER	National Electricity Rules
RAB	Regulatory Asset Base
RCP	Regulatory Control Period
2020 Determination	2020–25 Regulatory Control Period