[redacted]

26 March 2025

Mr Arek Gulbenkoglu
General Manager, Network Expenditure
Australian Energy Regulator
GPO Box 520, Melbourne, VIC, 3001
Email: AERenquiry@aer.gov.au

Dear Arek

Re: AER's Capital Expenditure Incentive Guideline Review – Consultation Paper

ElectraNet welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Capital Expenditure Incentive Guideline (CEIG) Review – Consultation Paper. The main topic of the Consultation Paper is how the CEIG needs to be amended to give effect to the AEMC's recent rule change[1] for targeted ex post review of Integrated System Plan (ISP) projects.

ElectraNet is South Australia's principal electricity Transmission Network Service Provider (TNSP) and is a critical part of the electricity supply chain and is facilitating the transition to a clean energy future.

We have participated in the Energy Networks Australia (ENA) submission process and broadly support the content of the resulting submission. With that said, ElectraNet would like to raise an additional issue we believe is pertinent to the AER's Consultation Paper and how a potential solution could operate.

Potential problem: capital expenditure allowance no longer appropriate

ElectraNet believes the operation of the Capital Expenditure Efficiency Sharing Scheme (CESS) can act as a disincentive to otherwise efficient capital expenditure, where due to factors beyond a Transmission Network Service Provider's (TNSP) control, the ex ante capital expenditure (capex) allowance proves to be lower than necessary to meet the capex objectives in the National Electricity Rules (Rules).[2] We provide three current examples in a confidential attachment which have put ElectraNet at this risk in the current 2023-28 regulatory period.

Where this proves to be the case, a TNSP faces the circumstance that if it makes otherwise prudent and efficient capital investments, it will face a CESS penalty on that expenditure. Such CESS penalties can be significant. That leaves ElectraNet with the choice between financial penalties or seeking to defer otherwise efficient investments to a later regulatory period. We believe this is inconsistent with the intention of the CESS, which is to incentivise efficient capital expenditure. If the capex allowance turns out to be inadequate, the ostensible overspend is not

[1] AEMC 2024, Rule determination – National Electricity Amendment (Managing ISP project uncertainty through targeted ex post reviews) Rule 2024.
[2] Rules, Cl 6A.6.7(a).

really 'inefficient' and therefore does not deserve to attract a CESS penalty; regardless whether the capex is related to an ISP project or not.

Potential solution: modification of CESS allowance

While there are other existing potential regulatory avenues to address this issue, such as a re-opener,[3] ElectraNet believes a less administratively burdensome solution could come from the modification of the CESS.[4] In simple terms, the capex allowance could be varied within a regulatory period for the purposes of the CESS, where a TNSP can reasonably satisfy the AER that the ex ante allowance is no longer appropriate for the regulatory period in question. This would be the only aspect of the revenue determination that would be revisited and the AER's final decision would remain unchanged for the other elements such as Maximum Allowable Revenue, opex and capex.

This solution would address the problems raised above and leave a TNSP unconstrained by financial penalty concerns when undertaking efficient capex. It would also retain the integrity of the CESS within a regulatory period; rather than for example seeking its nullification completely.

A potential other solution would be to exclude certain categories of capex from the CESS, with an example being connections expenditure for a distribution network. This is typically done on the basis that the quantum of connections capex is largely beyond a network's control, and may be significantly higher or lower than forecast. ElectraNet would argue category-based exclusion is not a solution for the problem discussed and evidenced in the Appendix. By its nature, this issue arises where changes to the appropriate capex allowance happen unforeseeably and potentially across all categories of capex, for example due to an economic shock affecting the cost of capex projects.

If you would like to discuss this response please contact me at [redacted] or on [redacted]

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Head of Regulation and Corporate Affairs

[3] Rules, Clause 6A.7.1.

[4] Another issue with a reopener is the materiality threshold, which may not necessarily be met.