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Mr Arek Gulbenkoglu  
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Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Via email: [AERenquiry@aer.gov.au](mailto:AERenquiry@aer.gov.au)

Dear Arek

### **Capital Expenditure Incentive Scheme Guideline Review – Consultation Paper**

Powerlink appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER's) Consultation Paper for this review.

In its paper, the AER has indicated that this review is to consider two elements:

- to accommodate the Australian Energy Market Commission's (AEMC's) Final Rule for *Managing the Integrated System Plan (ISP) Project Uncertainty Through Targeted Ex-post Reviews*, published in August 2024; and
- additional matters raised by stakeholders since the AER's 2023 review of incentive schemes for regulated networks. These include, whether to broaden the scope of exclusions from the Capital Expenditure Sharing Scheme (CESS) in certain circumstances and how to accommodate large projects that may be abandoned.

Overall, Powerlink supports an incentive-based approach to help ensure that networks continue to operate in a prudent and efficient manner and that investments are made in the long-term interests of consumers.

While Powerlink has provided input to Energy Networks Australia's submission on a number of the matters raised in the AER's paper, there are a few specific matters of particular importance that we focus on below.

#### **Broaden Scope of Assessment**

We understand that the AER is seeking input on whether a Transmission Network Service Provider's (TNSP's) CESS penalties should be adjusted following an ex-post review of an ISP project where it finds that the overspend is efficient.

Powerlink is strongly of the view that the AER should adjust the CESS penalty for actionable ISP projects where the expenditure is efficient and to extend this to all prescribed capital expenditure.



As explained further below, this is largely due to the fact that some of the drivers for an over-spend on an actionable ISP project could similarly impact the broader portfolio of capital investments undertaken.

### **Factors Outside our Control**

As the AER is aware, expenditure forecasts contained in a Revenue Proposal can be prepared well in advance of the start of a regulatory period and require an assessment of network needs that may extend beyond the forthcoming regulatory period. In doing so, networks have regard to all reasonable inputs, assumptions, policies and external factors available to them at the time.

However, over the course of the regulatory period, many operating environment factors may change that could impact the need for, as well as the timing and cost of investments.

While we accept that some of these factors may be within our control, other external factors such as geopolitical events which have resulted in supply chain challenges and inflationary pressures, are clearly outside our control. As a result, Powerlink considers that the AER should amend its CESS Guideline to ensure:

- the AER has regard to the circumstances for any material over-spend in capex; and
- that networks are not penalised under the scheme where such expenditure is considered to be prudent and efficient.

We also recommend that the AER exercise its discretion on this matter in assessing expenditure in current regulatory periods. Such an approach would be consistent with a broader requirement in the Rules<sup>1</sup> upon which the CESS was established, which is to take into account the circumstances of the TNSP.

### **Period for CESS Adjustment**

Under the current CESS, the AER applies net carryovers from one regulatory period to the next regulatory period – which is typically five years.

Given the significant nature of the expenditure and potential over-spends associated with actionable ISP projects in particular, we encourage the AER to consider whether it would be reasonable to apply CESS carryovers over a longer period of time - potentially at least 10-years. This may assist in reducing the revenue impact on networks and ultimately, the price impact on customers.

If you have any questions or require further clarification on this submission, please contact me at [REDACTED].

Yours sincerely,

*Signed by J Harris*

Jennifer Harris  
**General Manager Network Regulation**

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<sup>1</sup> NER clause 6A.6.5A.