

Final decision

AusNet Gas Services
Gas distribution access arrangement
1 July 2023 to 30 June 2028

Attachment 13 – Capital expenditure sharing
scheme

June 2023

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13 Capital expenditure sharing scheme

This attachment outlines our assessment of AusNet’s revised proposal for a capital expenditure sharing scheme (CESS) for the 2023–28 access arrangement period. This includes CESS rewards or penalties to be applied next period based on AusNet’s performance this period. The CESS is designed to incentivise efficient spending on capex by rewarding Network Service Providers (NSP) for lowering their capex below the amount approved for the access arrangement period. The rewards are shared between the NSPs and consumers. To ensure lower capex does not compromise service standards, the reward amounts are modified by a contingent payment factor (CPF). If service standards fall below target levels, reward amounts are reduced. Below a certain threshold, rewards are multiplied by zero. Conversely, the CESS will lead to a penalty if the NSP spends above its approved capex. The CPF does not apply to penalties, so if a penalty is incurred, it will not be reduced.

This final decision requires updates to the design of AusNet’s CESS for the next period. AusNet’s proposed CESS design for the 2023-28 period is based on our approved CESS for the Victorian gas businesses (2018–2022). In line with our most recent decisions for AGN (SA), Jemena Gas Network (JGN) and Evoenergy, we require that the CESS will not apply to new connections capital expenditure (capex).

13.1 Final decision

AusNet spent less capex in the 2018-22 access arrangement period than our forecast in the final decision for the 2018-22 access arrangement period. This results in a CESS reward being added to AusNet’s revenue in the 2023-28 access arrangement period. AusNet’s proposed CESS carryover amount and our final decision amounts are set out in Table 13-1. Our final decision is to broadly accept AusNet’s CESS carryover proposal. Our final decision is to approve a reward of \$7.73 million (\$2022/23).

Table 13-1 Our final decision on AusNet’s CESS amounts (\$ million, \$2022/23)

	2023-24	2024–25	2025–26	2026–27	2027–28	Total
AusNet’s draft decision CESS	1.7	1.7	1.7	1.7	1.7	8.6
AusNet’s revised CESS proposal	1.7	1.7	1.7	1.7	1.7	8.5
AER final decision CESS	1.55	1.55	1.55	1.55	1.55	7.73

Source: AER analysis. AusNet, *AER - AusNet 2023-28 - Draft Decision - CESS model - December 2022 – PUBLIC*, December 2022. AusNet, *ASG - GAAR 2024-28 CESS Model - 24 Jan 2023 - PUBLIC*, January 2023. Numbers may not add up due to rounding

The difference between AusNet’s draft decision carryover amounts and the revised amounts owes to updated WACC and CPI figures.¹ We are satisfied that AusNet’s application of the

¹ Attachment 2 on the capital base sets out our CPI final decision, while Attachment 3 on rate of return details our vanilla WACC final decision.

CESS is appropriate, and consistent with the CESS mechanism set out in its access arrangement. The difference between our final decision carryover amounts and AusNet’s owes mainly to replacing estimated 2022 capex figures with actual figures.²

We accept AusNet’s proposal to retain a CESS for the 2023-28 access arrangement period.³ In line with our most recent decisions for AGN (SA), Jemena Gas Network (JGN) and Evoenergy, however, we require that the CESS will exclude connections capex. The rationale for this requirement is that new connections volume is largely outside of NSP control. As such, this may lead to large windfall gains or losses for the NSP that are unrelated to the incentive mechanism.

13.2 AusNet’s revised proposal

13.2.1 CESS amounts from the 2018-22 access arrangement period

AusNet proposed a \$8.5 million (\$2022/23) reward be added to its revenue in the 2023–28 access arrangement period.⁴

AusNet has adopted measures to monitor service performance which adjust the CPF. The five target measures are:

- unplanned System Average Interruption Frequency Index (SAIFI) (weighting 25%)
- unplanned System Average Interruption Duration Index (SAIDI) (weighting 25%)
- mains leaks (weighting 20.4%)
- service leaks (weighting 23.0%)
- meter leaks (weighting 6.6%)

Performance targets for each measure have been set using the previous five years of historical data. The performance targets are weighted to produce a CPF. The CPF is used to scale down rewards if service performance is less than the target level. Consistent with the previous access arrangement period’s CESS, the threshold of performance below which no reward is payable to AusNet for an under-spend is an index score of 80 (base is 100).

13.2.2 Application of CESS in the 2023-28 access arrangement period

AusNet proposes to continue using a CESS into the next access arrangement period. In its revised proposal, following our requirements in the draft decision, AusNet has proposed excluding new connections capex from the CESS.⁵

² AusNet provided actual 2022 capex figures in response to an information request: AusNet, *Response to Information Request #028*, 15 March 2023. This actual 2022 capex amount will be reflected in our final decision RFM and CESS model.

³ The operation of the CESS is set out in: AusNet, *ASG - Access Arrangement - Part B - RAAP - Clean - 24 January 2023 PUBLIC*, January 2023, p.23-4.

⁴ AusNet, *ASG - GAAR 2024-28 CESS Model - 24 Jan 2023 - PUBLIC*, January 2023.

⁵ AusNet, *ASG - Access Arrangement - Part B - RAAP - Clean - 24 January 2023 PUBLIC*, January 2023, p.23.

13.2.3 Submissions on AusNet’s revised proposal

No submissions to the revised proposal related to the CESS.

13.3 Assessment approach

Our assessment approach is the same as in our draft decision on AusNet’s CESS proposal.⁶

13.4 Reasons for final decision

13.4.1 CESS amounts from the 2018–22 access arrangement period

We consider AusNet’s proposed reward of \$8.5 million (\$2022/23) is broadly consistent with the CESS mechanism in its 2018–22 access arrangement. The difference between the CESS reward in AusNet’s revised proposal and our final decision owes primarily to updated WACC and CPI figures, as well as updating 2022 capex estimates with actual 2022 capex.⁷ We note that, as AusNet is earning a reward, the CPF applies. We accept the figure of 1.00.

13.4.2 Updates to CESS in the 2023-28 access arrangement period

Following our requirement in the draft decision, AusNet has proposed to remove connections capex from the CESS. This is because the volume of new connections is largely outside a NSP’s control. We view the benefit of this updated CESS is that it avoids windfall gains or losses for the NSP that are unrelated to the incentive mechanism. Potential risks associated with this update had been raised in submissions to the initial proposal and addressed in the draft decision.⁸ We accept the exclusion of new connections capex from the CESS.

13.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 13-2.

Table 13-2 AusNet’s CESS revisions

Revision	Amendment
Revision 13.1	Make revisions necessary to update CPI, real vanilla WACC, and actual 2022 capex in the calculation of the CESS, in line with our final decision.

⁶ AER, *AER – AusNet 2023-28 – Draft Decision – Attachment 13 – Capital expenditure sharing scheme – December 2022*, December 2022, pp. 2-3

⁷ AusNet provided actual 2022 capex figures in response to an information request: AusNet, response to information request #028, March 2023

⁸ AER, *AER - AusNet 2023-28 - Draft Decision - Attachment 13 - Capital expenditure sharing scheme - December 2022*, December 2022

Glossary

Term	Definition
AER	Australian Energy Regulator
AGN (SA)	Australian Gas Networks (South Australia)
AusNet	AusNet Gas Services
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
CPF	Contingent Payment Factor
CPI	Consumer price index
JGN	Jemena Gas Networks (NSW) Ltd
NGL	National Gas Law
NGR	National Gas Rules
NSP	Network Service Provider
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
WACC	Weighted average cost of capital
