Final Decision

AusNet Services Transmission Determination 2022 to 2027

Attachment 9

Capital expenditure sharing scheme

January 2022

AUSTRALIAN
ENERGY
REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: AERInquiry@aer.gov.au

AER reference: 65242

Note

This attachment forms part of the AER's final decision on AusNet Services' 2022–27 transmission determination. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

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 12 – Pricing methodology

Attachment 13 – Pass through events

Contents

9 Capital expenditure sharing scheme

The capital expenditure sharing scheme (CESS) provides financial rewards to network service providers whose capital expenditure (capex) becomes more efficient and financial penalties for those that become less efficient. Consumers benefit from improved efficiency through lower regulated prices. We first applied the CESS to AusNet Services in the 2017–22 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 2017–22 regulatory control period, and the application of the CESS for AusNet Services in the 2022–27 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. Under the CESS a service provider retains 30 per cent of an under-spend or over-spend, while consumers retain 70 per cent of the under-spend or over-spend. This means that for a one dollar saving in capex the service provider keeps 30 cents of the benefit while consumers keep 70 cents of the benefit.

The CESS works as follows:

1. We calculate the cumulative efficiency gains or losses for the current regulatory control period in net present value terms.
2. We apply a ratio of 30 per cent to the cumulative under-spend or over-spend to work out the service provider's share of the under-spend or over-spend.
3. We calculate the CESS payment taking into account the financing benefit, or cost, to the service provider of the under-spend or over-spend.[1] We can also make a further adjustment to account for deferral of capex and ex post exclusions of capex from the regulatory asset base (RAB)[2]
4. The CESS payment is added or subtracted to the service provider's regulated revenue as a separate building block in the next regulatory control period

[1] We calculate benefits as the benefits to the service provider of financing the under-spend 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 over-spend.

[2] The capex incentive guideline outlines how we may exclude capex from the RAB. AER, *Capital Expenditure Incentive Guideline*, November 2013, pp. 13–20.

9.1 Final decision

Revenue impacts in the 2022–27 regulatory control period from applying the CESS in the 2017–22 regulatory control period

Our final decision is to apply a CESS revenue increment amount of $8.3 million ($2021–22) to be paid across the 2022–27 regulatory control period, from the application of the CESS in the 2017–21 regulatory control period.

The difference between our final decision and AusNet Services' revised proposal ($8.5 million ($2021–22)) is due to adopting:

- more recent inflation figures
- updated weighted average cost of capital (WACC) input information
- updated 2021 capex consistent with our roll forward model.

Application of scheme in the 2022–27 regulatory control period

We will apply the CESS as set out in version 1 of the capital expenditure incentives guideline to AusNet Services in the 2022–27 regulatory control period.[3] The guideline provides for the exclusion from the CESS of capex the service provider incurs in delivering a priority project approved under the network capability component of the service target performance incentive scheme (STPIS) for transmission network service providers.[4] This is consistent with the proposed approach we set out in our framework and approach paper[5] and draft decision.[6]

9.2 AusNet Services' revised proposal

AusNet Services proposed a CESS revenue increment of $8.5 million ($2021–22) for the 2022–27 regulatory control period in its revised proposal.[7] AusNet Services' proposed CESS revenue increment is slightly higher than our draft decision increment of $5.1 million ($2021–22), primarily because AusNet Services' actual 2020–21 capex is lower than the estimate included in its initial revenue proposal. AusNet Services' amended actual 2020–21 forecast capex reflects the impact of COVID-19 on its capital works programs, which resulted in some planned expenditure being deferred.[8]

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3 AER, *Capital Expenditure Incentive Guideline*, November 2013, pp. 5–9; cl. 6A.6.5A(e) of the NER.

4 AER, *Capital Expenditure Incentive Guideline*, November 2013, p. 6.

5 AER, *Final framework and approach for AusNet Services 2022–27*, 24 April 2020.

6 AER, *Draft Decision, AusNet Services transmission determination 2022–27, Attachment 9 – Capital expenditure sharing scheme*, June 2021, p. 8.

7 AusNet Services, *Revised Revenue Proposal 2023–27*, 1 September 2021, p. 153.

8 AusNet Services, *Revised Revenue Proposal 2023–27*, 1 September 2021, p. 153.

9.3 Assessment approach

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

- the revenue impacts on AusNet Services arising from applying the CESS in the 2017–22 regulatory control period
- whether or not to apply the CESS to AusNet Services in the 2022–27 regulatory control period and how any applicable scheme will apply.[9]

We must determine the appropriate revenue increments or decrements (if any) for each year of the 2022–27 regulatory control period arising from the application of the CESS during the 2017–22 regulatory control period.[10]

We must also determine how any applicable CESS is to apply to AusNet Services in the 2022–27 regulatory control period.[11] In deciding whether to apply a CESS to AusNet Services for the 2022–27 regulatory control period, and the nature and 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.

9.4 Reasons for final decision

Our final decision CESS revenue increment amount of $8.3 million ($2021–22) reflects mechanical adjustments to our draft decision to reflect updated actual capex, forecast capex, the Consumer Price Index and WACC.

Our final decision is consistent with our draft decision.

We are currently reviewing our incentive schemes, including the CESS, to ensure that they remain relevant and fit-for-purpose. This forms part of our strategic priority to

9 NER, cl. 6A.14.1(5A).

10 NER, cl. 6A.5.4(a)(5).

11 NER, cl. 6A.14.5(5A).

12 NER, cl. 6A.6.5A(e).

13 NER, cl. 6A.6.5A(e)(3); the capex incentive objective is set out in cl. 6A.5A(a).

14 NER, cl. 6A.6.5A(e)(4)(i); the CESS principles are set out in cl.6A.6.5A(c).

15 NER, cll. 6A.6.5A(e)(4)(i) and 6A.6.5A(d)(2); the capex objectives are set out in cl. 6A.6.7(a); the opex objectives are set out in cl. 6A.6.6(a).

16 NER, cll. 6A.6.5A(e)(4)(i) and 6A.6.5A(d)(1).

17 NER, cl. 6A.6.5A(e)(4)(ii).

improve our approach to regulation by being more efficient and focusing on outcomes that matter most to consumers. On 2 December 2021, we published a discussion paper that outlined the key issues for review and sought feedback from stakeholders.[18]

The review will likely conclude in late 2022 and the outcomes, including any amendments to the CESS, will not apply to AusNet Services in the 2022–27 regulatory control period. The current version 1 of the CESS will apply.

[18] AER, *Review of expenditure incentive schemes - discussion paper* - December 2021.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital