Capital Expenditure Sharing Scheme

OVERVIEW | August 2025

The purpose of this information sheet is to provide a high-level overview of the capital expenditure sharing scheme (CESS).

What is the CESS?

The CESS is an incentive based regulatory mechanism developed by the Australian Energy Regulator (AER) to encourage Network Service Providers (NSPs) to undertake efficient capital expenditure (capex) during a regulatory control period.

The CESS aims to provide a continuous incentive for a network business to undertake efficient capital investments.

Why is the CESS in place?

The purpose of this scheme is to incentivise NSPs to undertake efficient capital expenditure during a regulatory period. The CESS operates to provide even and symmetric incentives over a regulatory period, ultimately leading to lower prices for consumers.

How does the CESS work?

An annual capex allowance is set by the AER at the start of a regulatory period (usually five years). The allowance is intended to represent the efficient capex necessary for the business to meet its regulatory obligations.

The CESS compares the allowance (target) and actual spend in each year of a regulatory period to calculate the annual efficiency gain (underspend) and efficiency loss (overspend), and adjusts this for finance costs avoided/incurred. The allowance may be adjusted by the AER within the regulaltory period, e.g. to allow for approved pass throughs or contingent projects.

The sharing of efficiency gains and losses occurs at the end of each regulatory period. If a business spends less than its allowance, it will benefit during the period. Customers benefit at the end of the period when the Regulatory Asset Base (RAB) is updated to include less capex compared to if the business had spent the full amount of the capex forecast. This leads to lower prices in the future.

When the CESS is implemented, a business will retain 30 per cent of an underspend or overspend, while customers will retain 70 per cent of the underspend or overspend.[1]

The ex post review[2] complements the CESS. Under the CESS a business bears 30 per cent of the overspend, provided the overspend is purdent and efficient. If the overspend is found to be inefficient following an ex post review the business will bear 100 per cent of the inefficient overspend.

NOTE: The AER recently consulted on further updates to the CESS, and Capital Expenditure Incentive Guideline, and will publish a new version on 4 September 2025, which will be applied to our 2027-32 Revenue Proposal.

For more information about CESS and other incentive schemes refer to our 2027-32 Revenue Proposal, Chapter 14 Expenditure Incentive Schemes.

Symmetrical – applies to both gains and losses[1]

Consistent – equal incentive over time

70:30

Shares benefits approx. 70:30 in favour of customers[1]

Ex post review to ensure overspend is prudent & efficient

[1] The AER updated the CESS in April 2023 and applied a non-symmetrical sharing ratio for underspends exceeding 10%. This will apply to application of the CESS in future regulatory periods.

[2] Capital expenditure incentive guideline, AER, July 2024, page 8