Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 5 – Efficiency benefit sharing scheme

September 2025

AUSTRALIAN ENERGY REGULATOR

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5 Efficiency benefit sharing scheme

The efficiency benefit sharing scheme (EBSS) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of these between service providers and consumers.[1] Consumers benefit from improved efficiencies through lower regulated prices.

This attachment sets out our draft decision on the EBSS carryover amounts AusNet accrued over the 2021–26 regulatory control period, and how we will apply the EBSS over the 2026–31 regulatory control period.

5.1 Draft decision

Our draft decision is to include EBSS carryover amounts totalling $24.7 million[2], from the application of the EBSS in the 2021–2026 regulatory control period.[3] This represents a $15.5 million difference from AusNet's proposed carryover amount of $40.2 million.[4] This difference reflects the following adjustments we have made in our draft decision:

- updated actual and forecast inflation for 2024–25 and 2025–26 respectively[5]
- updated actual and forecast real vanilla WACC inputs for 2025–26 and 2026–27
- updated approved total opex allowance for latest Cost Pass Through determinations
- removed non–recurrent SaaS costs from actual opex
- added a base year (2022-23) and included 2018 base year (previous regulatory control period) non–recurrent efficiency gain for purposes of calculating EBSS carryovers.

These updates are further discussed in 5.4.1.

In our final decision, we will also update our EBSS carryover calculations to reflect actual opex for 2024–25 and for the most recent inflation data.

We set out our draft decision on the EBSS carryover amounts AusNet accrued during the 2021–26 regulatory control period in Table 5.1, along with AusNet's proposal and the difference.

1 AER, *AER explanatory statement – efficiency benefit sharing scheme*, November 2013, p. 5.

2 All dollars in this document are in $2025–26 terms unless otherwise stated.

3 NER, cl. 6.4.3(a)(5).

4 Ausnet, *ASD – AusNet – EDPR 2026–31 Regulatory Proposal*, January 2025, p. 318.

5 Australian Bureau of Statistics (ABS*), Consumer Price Index, Australia,* released on 30 July 2025 (accessed on 12 August 2025: *Consumer Price Index, Australia June Quarter 2025*; *Reserve Bank of Australia (RBA), Statement on monetary policy*, August 2025, (accessed on 12 August 2025: *Statement on Monetary Policy – August 2025 3.5 Detailed forecast information)*.

Table 5.1 Draft decision on carry over amounts ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet's proposal	–15.0	15.0	–	–6.1	46.4	40.2
AER draft decision	–0.7	9.3	–4.7	–11.6	32.4	24.7
Difference	**14.3**	**–5.7**	**–4.7**	**–5.5**	**–13.9**	**–15.5**

Source: AusNet, *AusNet – 1.1 – Post Tax Revenue Model*, January 2025; AER, *AusNet distribution determination 2021–26 – PTRM – 2025–26 RoD update,* March 2025; AER analysis

Note: Numbers may not add up to total due to rounding. Values of '0.0' and '–0.0' represent small nonzero amounts and '–' represents zero.

Our draft decision is also to continue to apply version 2 of the EBSS to AusNet in the 2026–31 regulatory control period.[6]

Consistent with AusNet's proposal, we will exclude the following cost categories from the scheme:

- debt raising costs
- guaranteed service level (GSL) payments
- demand management innovation allowance mechanism
- any other costs treated as category specific forecast such as any innovation fund opex that is included in the forecast.

However, we will not exclude AusNet's proposed Regional Reliability allowance.[7] This is due to our capex determination not accepting the proposed expenditure (see Attachment 2, Section A.2.3.3).

We will also make other adjustments as permitted by the EBSS, such as removing movement in provisions related to opex, and adding approved opex for pass throughs to forecast opex.

We discuss the reasons for our decision on applying the EBSS in the 2026–31 regulatory control period in section 5.4.2.

6 NER, cl. 6.12.1(i); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

7 AusNet, ASD – *AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, p. 148.

5.2 Overview of proposal

5.2.1 Carryover amounts from the 2021–26 control period

AusNet proposed we include EBSS carryover amounts totalling $40.2 million in its revenue for the 2026–31 regulatory control period from the application of the EBSS in the 2021–26 regulatory control period.

AusNet excluded debt raising costs in calculating its EBSS carryover amounts.

AusNet also adjusted its actual opex to reverse any movement in provisions for the period 2018 to 2023–24 for the purpose of calculating the EBSS.

5.2.2 Application in the 2026–31 control period

AusNet proposed we apply the EBSS in the 2026–31 regulatory control period.[8] AusNet supported the adjustments we apply in version 2 of the EBSS, and additionally proposed we exclude the following cost categories in calculating its EBSS carryover amounts:[9]

- GSL payments
- movement in provisions
- debt raising costs
- demand management innovation allowance mechanism
- innovation fund opex
- regional reliability allowance

5.2.3 Stakeholder submissions

We did not receive any stakeholder submission in relation to AusNet's EBSS carryovers or application of the scheme in the 2026–31 period.

5.3 Assessment approach

Under the National Electricity Rules (NER), we must determine:

- the revenue increments or decrements for each year of the 2026–31 regulatory control period arising from the application of the EBSS during the 2021–26 regulatory control period. [10]
- how the EBSS will apply to AusNet in the 2026–31 regulatory control period. [11]

8 AusNet, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, p. 320.

9 AusNet, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, p. 320.

10 NER, cl. 6.4.3(a)(5).

11 NER, cl. 6.3.2(a)(3); cl. 6.12.1(i).

The EBSS must provide for a fair sharing of opex efficiency gains and efficiency losses between AusNet and its network users.[12] We must also have regard to the following matters when implementing the EBSS:[13]

- the need to provide AusNet with a continuous incentive to reduce opex
- the desirability of both rewarding AusNet for efficiency gains and penalising it for efficiency losses
- any incentives that AusNet may have to inappropriately capitalise expenditure
- the possible effects of the scheme on incentives for the implementation of non–network alternatives.

5.3.1 Interrelationships

The EBSS is closely linked to our revealed cost approach to forecasting opex. When we assess or develop the opex forecast, the NER requires us to have regard to whether the opex forecast is consistent with any incentive schemes.[14]

Our opex forecasting method typically relies on using the 'revealed costs' of the service provider in a chosen base year to develop a total opex forecast, if the chosen base year opex is not considered to be 'materially inefficient'. Under this approach, a service provider would have an incentive to spend more opex in the expected base year. Also, a service provider has less incentive to reduce opex towards the end of the regulatory control period, where the benefit of any efficiency gains is retained for less time.

The application of the EBSS therefore serves two important functions:

1. it removes the incentive for a service provider to inflate opex in the expected base year to gain a higher opex forecast for the next regulatory control period
2. it provides a continuous incentive for a service provider to pursue efficiency improvements across the regulatory control period.

The EBSS does this by allowing a service provider to retain efficiency gains (or losses) for a total of 6 years, regardless of the year in which the service provider makes them. Where we do not propose to rely on the single year revealed costs of a service provider in forecasting opex, this has consequences for the service provider's incentives and our decision on how we apply the EBSS. When a business makes an incremental efficiency gain, it receives a reward through the EBSS, and consumers benefit through a lower revealed cost forecast for the subsequent regulatory control period.

This is how efficiency improvements are shared between consumers and the business. If we subject costs to the EBSS that are not forecast using a revealed cost approach, a business would in theory receive a reward for efficiency gains through the EBSS (at a cost to

12 NER, cl. 6.5.8(a).

13 NER, cl. 6.5.8(c).

14 NER, cl. 6.5.6(e)(8). Further, we must specify and have regard to the relationship between the constituent components of our overall decision: NEL, s 16(1)(c).

consumers), but consumers would not benefit through a lower revealed cost forecast in the subsequent regulatory control period.

Therefore, we typically exclude costs that we do not forecast using a single year revealed cost forecasting approach.

For these reasons, our decision on how we will apply the EBSS to AusNet has a strong interrelationship with our decision on its opex (see Attachment 3). We have careful regard to the effect of our EBSS decision when making our opex decision, and our EBSS decision is made largely in consequence of (and takes careful account of) our past and current decisions on AusNet's opex.

5.4 Reason for draft decision

This section provides the reasons for our draft decision on the carryover amounts that arise from applying the EBSS during the 2021–26 regulatory control period, and how we will apply the EBSS in the 2026–31 regulatory control period.

5.4.1 Carryover amounts from the 2021–26 control period

Our draft decision is to include EBSS carryover amounts totalling $24.7 million from the application of the EBSS in the 2021–2026 regulatory control period. This represents a $15.5 million difference from AusNet's proposed carryover amount $40.2 million. This difference reflects the adjustments we made to correctly apply the scheme, as summarised in section 5.1 and discussed below.

We consider that the EBSS carryover amounts we have calculated provide for a fair sharing of efficiency gains and losses between AusNet and its network users. Over the 2021–26 regulatory control period it both rewards AusNet for any efficiency gains it has made and penalises it for any efficiency losses

In our final decision, we will update our EBSS carryover calculations to reflect actual opex for 2024–25. Our draft decision is based on an estimate because actual data for 2024–25 is not yet available. We will also update inflation.

5.4.1.1 Inflation

Consistent with our standard approach, and opex forecast, we used unlagged inflation to convert opex amounts to 2025–26 real terms. This approach is also consistent with the approach AusNet adopted in its proposal.[15]

In our draft decision we have used updated consumer price index (CPI) values compared to those AusNet used in its proposal. For 2024–25, we used the actual headline June quarter 2025 CPI figure published by the Australian Bureau of Statistics, which was released after AusNet submitted its proposal.[16] For 2025–26 we used the inflation forecast for the year to

15 AusNet, *ASD – AusNet – RIN Workbook 3 – Efficiency Benefit Sharing Scheme*, January 2025.

16 Australian Bureau of Statistics (ABS), Consumer Price Index, Australia, released on 31 July 2025 (accessed on 31 July 2025): Consumer Price Index, Australia June Quarter 2025.

June 2026 in the Reserve Bank of Australia's August 2025 *Statement on monetary policy*, which was also published after AusNet submitted its proposal.[17]

5.4.1.2 WACC inputs

AusNet's proposal has applied the nominal vanilla actual/forecast WACC inputs to calculate EBSS carryovers. The inclusion of WACC inputs for purposes of calculating EBSS carryovers in this decision is a result of the Half Year and 2020 true-ups applied for this period. Our draft decision has included the real vanilla actual/forecast WACC inputs aligning with our standard approach for the purpose of calculating EBSS carryovers.

5.4.1.3 SaaS costs

AusNet's proposal has included non-recurrent Software as a Service (SaaS) costs in total actual opex, for the 2021–2026 regulatory control period to calculate EBSS carryovers. Our draft decision excludes the non-recurrent SaaS costs from total actual opex for calculating EBSS carryovers, aligning with our standard approach to mid period accounting changes.

The non recurrent SaaS costs were forecast as capex in AusNet's 2021–26 regulatory determination. The capex forecast predates the IFRSIC decision in In March 2021 which reclassified AusNet's non recurrent SaaS expenditure from capex to opex.[18]

Our standard approach[19] is to exclude the impact of mid-period capitalisation and/or accounting treatment changes from the EBSS. This is achieved by ensuring any mid-period capitalisation and/or accounting changes are not implemented until the start of the new period. We do this to ensure the EBSS rewards (and penalties) reflect genuine efficiency changes rather than capitalisation and/or accounting treatment changes. We consider that under this approach there would be no opportunity for a service provider to incur windfall gains or losses that have resulted purely from movement of expenditure between opex and capital expenditure due to mid-period cost reclassification.

5.4.1.4 Base year non–recurrent efficiency gain

We have included a non–recurrent efficiency adjustment to base year opex of $4.7 million, for forecast opex to satisfy the opex criteria and to share the significant insurance premium underspends with network users through EBSS carryovers.

In the 2021–26 period we approved an insurance premium step change to account for significantly higher forecast insurance premiums. However, actual insurance costs were materially lower than forecast resulting in significant underspends against the approved step change. If no adjustment was made the EBSS would treat this difference as a recurrent

17 Reserve Bank of Australia (RBA), Statement on monetary policy, August 2025, (accessed on 12 August 2025): https://www.rba.gov.au/publications/smp/2025/aug/outlook.html#3–5–detailed–forecast–information–5–detailed–forecast–information).

18 IFRS Interpretations Committee, *Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)*, March 2021.

19 AER, *Draft Decision Essential Energy Electricity Distribution Determination 2024 to 2029*, September 2023, p. 26.

efficiency gain, providing AusNet with a windfall reward unrelated to genuine efficiency improvements.

AusNet's proposed EBSS calculations did not include our approved 2018 base year non-recurrent efficiency gain, as required under our standard approach[20]. Our draft decision alternative estimate has included the approved 2018 base year non-recurrent efficiency gain for the purpose of calculating EBSS carryovers.

5.4.2 Application in the 2026–31 control period

Our draft decision is to continue to apply version 2 of the EBSS[21] to AusNet during the 2026–31 regulatory control period. It will apply to the opex associated with the main standard control services, as discussed in Attachment 3. We consider applying the scheme will benefit the long–term interests of electricity consumers by providing a continuous incentive for AusNet to reduce its opex. Provided we forecast AusNet's future opex using its revealed costs in the 2026–31 regulatory control period, any efficiency gains (losses) that AusNet achieves will lead to lower (higher) future opex forecasts, and thus lower (higher) network tariffs.

Version 2 of the EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts. [23] We provide details on these below.

5.4.2.1 Adjustments to forecast or actual opex when calculating carryover amounts

The EBSS allows us to exclude categories of costs that we do not forecast using a single year revealed cost forecasting approach in the following control period. We do this to fairly share efficiency gains and losses. For instance, where a service provider achieves efficiency improvements, it receives a benefit through the EBSS, and consumers receive a benefit through lower forecast opex in the next regulatory control period. This is the way consumers and the service provider share in the benefits of an efficiency improvement.

If we do not use a single year revealed cost forecasting approach, we may not pass the benefits of these revealed efficiency gains to consumers. It follows that consumers should not pay for EBSS rewards where they do not receive the benefits of a lower opex forecast.

We do not forecast debt raising costs using a single year revealed cost forecasting approach. Instead, we provide a benchmark forecast. Accordingly, we have excluded these costs from the EBSS for the 2026–31 regulatory control period since any achieved efficiency gains (or losses) would not be passed on to network users.

We will also exclude projects under the Demand Management Innovation Allowance Mechanism, because including them in the EBSS would distort the incentives provided under these schemes and allowances.

Similarly, we note AusNet proposed that the opex component of its innovation fund and regional reliability expenditure be excluded from the EBSS for the 2026–31 regulatory control

20 AER, *Draft Decision AusNet Services Distribution Determination 2021 to 2026 Attachment 8 Efficiency benefit sharing scheme*, September 2020, p22.

21 AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

period.[22] The proposed innovation fund opex was not forecast on a revealed cost basis and is unlikely to be forecast on that basis in future given the nature of these costs. We therefore agree that any network innovation fund opex should be excluded from application of the EBSS for the 2026–31 regulatory control period. However, we will not exclude AusNet's proposed Regional Reliability allowance.[23] This is due to our capex determination not accepting the proposed expenditure (see Attachment 2, Section A.2.3.3).

In addition to the excluded cost categories discussed above, and consistent with version 2 of the EBSS, we will also make the following adjustments when we calculate the EBSS carryover amounts accrued during the 2026–31 regulatory control period:

- adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the initial regulatory determination, such as approved pass–through amounts or opex for contingent projects
- adjust actual opex to add capitalised opex that has been excluded from the regulatory asset base
- adjust forecast opex and actual opex for inflation
- adjust actual opex to remove any movements in provisions
- adjust opex for any services that will not be classified as standard control services in the 2031–36 regulatory control period, to the extent these costs are not forecast using a single year revealed cost approach and excluding these costs better achieves the requirements of clause 6.5.8 of the NER.

22 AusNet, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, p. 320.

23 AusNet, *ASD – AusNet – EDPR 2026 – 2031 Regulatory Proposal*, January 2025, p. 149.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CPI	consumer price index
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
IFRSIC	International Financial Reporting Standards Interpretations Committee
NEL	national electricity law
NER or the rules	national electricity rules
opex	operating expenditure
RIN	regulatory information notice
SaaS	software as a service
WACC	weighted average cost of capital