Draft decision

Jemena 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 Jemena Electricity Network's 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 –$4.4 million[2], from the application of the EBSS in the 2021–2026 regulatory control period.[3] This represents a –$25.4 million difference from Jemena's proposed carryover amount of $21.0 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.

- removed non–recurrent SaaS costs from actual opex.

- added a base year non-recurrent efficiency gain of $4.9 million, in relation to an insurance step change in the current period 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 Jemena accrued during the 2021–26 regulatory control period in Table 5.1, along with Jemena's proposal and the difference.

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[1]   AER, *AER explanatory statement – efficiency benefit sharing scheme*, November 2013, p. 6.

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

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

[4]   Jemena, *JEN – Att 08-09M EBSS model – 20250131 – Public*, January 2025.

[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 carryover amounts ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	4.6	3.8	6.7	5.9	–	21.0
AER draft decision	–0.5	–1.3	1.6	0.7	–4.9	–4.4
Difference	**–5.1**	**–5.1**	**–5.1**	**–5.1**	**–4.9**	**–25.4**

Source: Jemena, *JEN – Att 08-09M EBSS model – 20250131 – Public,* January 2025; AER, *AER - EBSS Model - Draft Decision - Jemena distribution determination 2026-31*, September 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 Jemena in the 2026–31 regulatory control period.[6] It will apply to the opex associated with the main standard control services, as discussed in Attachment 3.

Consistent with Jemena'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.

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.

5.2 Overview of proposal

5.2.1 Carryover amounts from the 2021–26 control period

Jemena proposed we include EBSS carryover amounts totalling $21.0 million in its revenue for the 2026–31 regulatory control period from the application of the EBSS in the 2021–26 regulatory control period.[7]

Jemena excluded debt raising costs, demand management innovation allowance, and GSL payments in calculating its EBSS carryover amounts.

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

[7] Jemena, *JEN - Att 07-01 Incentive mechanisms – 20250131*, January 2025, p. 1.

Jemena 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.

Additionally Jemena adjusted its total opex to exclude SaaS costs, which were subject to a change in accounting treatment.

5.2.2 Application in the 2026–31 control period

Jemena proposed we apply the EBSS in the 2026–31 regulatory control period.[8] Jemena 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

5.2.3 Stakeholder submissions

We did not receive any stakeholder submission in relation to Jemena'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 Jemena in the 2026–31 regulatory control period. [11]

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

- the need to ensure that benefits to distribution service end users likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for United Energy

- the need to provide Jemena with a continuous incentive to reduce opex.

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[8]   Jemena, *JEN - Att 07-01 Incentive mechanisms – 20250131*, January 2025, p. 1.

[9]   Jemena, *JEN - Att 07-01 Incentive mechanisms – 20250131*, January 2025, p. 2.

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

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

[12]   NER, cl. 6.5.8(a).

[13]   NER, cl. 6.5.8(c).

- the desirability of both rewarding Jemena for efficiency gains and penalising it for efficiency losses.

- any incentives that Jemena may have to inappropriately capitalise expenditure.

- the possible effects of the scheme on incentives for the implementation of non–network options or stand-alone power system options.

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 2 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 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 Jemena has a strong interrelationship with our decision on its opex (see Attachment 6). We have careful regard to the effect of our EBSS decision when making our opex decision, and our EBSS decision is

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[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).

made largely in consequence of (and takes careful account of) our past and current decisions on Jemena'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 –$4.4 million from the application of the EBSS in the 2021–2026 regulatory control period. This represents a $25.4 million decrease from Jemena's proposed carryover amount $21.0 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 Jemena and its network users. Over the 2021–26 regulatory control period it both rewards Jemena 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 Jemena adopted in its proposal.[15]

In our draft decision we have used updated consumer price index (CPI) values compared to those Jemena 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 Jemena submitted its proposal.[16] For 2025–26 we used the inflation forecast for the year to June 2026 in the Reserve Bank of Australia's August 2025 *Statement on monetary policy*, which was also published after Jemena submitted its proposal.[17]

5.4.1.2 WACC inputs

Jemena's proposal has applied the real 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

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[15]   Jemena, *JEN – Att 08-09M EBSS model – 20250131 – Public*, January 2025.

[16]   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*).

[17]   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).*

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 Software as a Service (SaaS) costs

Jemena's proposal did not include non-recurrent SaaS costs in total actual opex, for the 2021–2026 regulatory control period to calculate EBSS carryovers. Our draft decision also 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 Jemena's 2021–26 regulatory determination. The capex forecast predates the IFRSIC decision in In March 2021 which reclassified Jemena'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 $4.9 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 efficiency gain, providing Jemena with a windfall reward unrelated to genuine efficiency improvements. This approach maintains the integrity of the EBSS.

5.4.2 Application in the 2026–31 control period

Our draft decision is to continue to apply version 2 of the EBSS[20] to Jemena 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 Jemena to reduce its opex. Provided we forecast Jemena's future opex using its revealed costs in the 2026–31 regulatory control period, any efficiency gains (losses) that Jemena

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

[19] AER, *Draft Decision Attachment 08 – Efficiency benefit sharing scheme - Essential Energy - 2024-29 Distribution revenue proposal*, September 2023, p. 9.

[20] AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

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. 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 Jemena proposed that the opex component of its innovation fund be excluded from the EBSS for the 2026–31 regulatory control period.[21] 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.

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.

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[21]   Jemena, *JEN - Att 07-01 Incentive mechanisms – 20250131*, January 2025, p. 2.

- 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 clauses 6.5.8 of the NER.

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
NEL	national electricity law
NER or the rules	national electricity rules
opex	operating expenditure
RAB	regulatory asset base
RIN	regulatory information notice
SaaS	software as a service