

# Draft decision

## Powercor electricity distribution determination

1 July 2026 – 30 June 2031

**Attachment 5 – Efficiency benefit sharing scheme**

**September 2025**

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AER reference: AER23008249

### **Amendment record**

| Version | Date              | Pages |
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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.<sup>1</sup> Consumers benefit from improved efficiencies through lower regulated prices.

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

### 5.1 Draft decision

Our draft decision is to include EBSS carryover amounts totalling –\$96.9 million,<sup>2</sup> from the application of the EBSS in the 2021–2026 period.<sup>3</sup> This represents a –\$68.1 million difference from Powercor’s proposed carryover amount of –\$28.8 million.<sup>4</sup> 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,<sup>5</sup> which increased total carryovers by \$0.5 million
- updated actual and forecast real vanilla WACC inputs for 2025–26 and 2026–27, which increased total carryovers by \$0.4 million
- added a base year non-recurrent efficiency gain of \$14.3 million, in relation to an insurance step change in the current period for the purpose of calculating EBSS carryovers, which reduced total carryovers by \$71.6 million
- updated the movement in provisions and guaranteed service level (GSL) amounts for 2019, 2020, HY2021 and for 2023–24, and updated the actual opex expenditure for 2021–22, which increased total carryovers by \$2.7 million.

We discuss these updates further section 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 Powercor accrued during the 2021–26 period in Table 5.1, and compare them with Powercor’s proposal.

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

<sup>2</sup> All dollars in this document are in \$2025–26 terms unless otherwise stated.

<sup>3</sup> NER, cl. 6.4.3(a)(5).

<sup>4</sup> Powercor, *PAL MOD 1.06 – EBSS*, January 2025.

<sup>5</sup> 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        |
|---------------------|---------|---------|---------|---------|---------|--------------|
| Powercor's proposal | –8.7    | –22.8   | –1.8    | 4.5     | –       | <b>–28.8</b> |
| AER draft decision  | –25.1   | –33.7   | –15.6   | –8.2    | –14.3   | <b>–96.9</b> |
| Difference          | –16.4   | –10.9   | –13.8   | –12.6   | –14.3   | <b>–68.1</b> |

Source: Powercor, *PAL MOD 1.06 – EBSS*, January 2025; AER analysis.

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

Our draft decision, consistent with Powercor's proposal, is to continue to apply version 2 of the EBSS to Powercor in the 2026–31 period.<sup>6</sup>

Consistent with Powercor's proposal, we will exclude the following cost categories from the scheme:<sup>7</sup>

- debt raising costs
- GSL payments
- demand management innovation allowance mechanism
- any other costs treated as category specific forecast opex (such as innovation fund and customer assistance package costs) that is included in this forecast.

We will also make other adjustments as permitted by the EBSS, such as removing movements 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 period in section 5.4.2.

## 5.2 Overview of proposal

### 5.2.1 Carryover amounts from the 2021–26 period

Powercor proposed to include EBSS carryover amounts totalling –\$28.8 million in its revenue for the 2026–31 period from the application of the EBSS in the 2021–26 period.

Powercor excluded debt raising costs, demand management innovation allowance (DMIA) payments, and GSL payments in calculating its EBSS carryover amounts.

Powercor also adjusted its actual opex to reverse any movement in provisions for the purpose of calculating the EBSS.

<sup>6</sup> NER, cl. 6.12.1(i); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013; Powercor, *Regulatory Proposal 2026–31 – Part B – Explanatory Statement*, January 2025, p. 98.

<sup>7</sup> Powercor, *Regulatory Proposal 2026–31 – Part B – Explanatory Statement*, January 2025, p. 98.

### 5.2.2 Application in the 2026–31 period

Powercor proposed we apply the EBSS in the 2026–31 period.<sup>8</sup> Powercor 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:<sup>9</sup>

- GSL payments
- debt raising costs
- demand management innovation allowance mechanism
- innovation fund opex.

### 5.2.3 Stakeholder submissions

We did not receive any stakeholder submission on Powercor’s proposed 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 period arising from the application of the EBSS during the 2021–26 period<sup>10</sup>
- how the EBSS will apply to Powercor in the 2026–31 period.<sup>11</sup>

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

- the need to ensure that benefits to users likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for Powercor
- the need to provide Powercor with a continuous incentive to reduce opex
- the desirability of both rewarding Powercor for efficiency gains and penalising it for efficiency losses
- any incentives that Powercor may have to inappropriately capitalise expenditure
- the possible effects of the scheme on incentives for the implementation of non–network alternatives or stand-alone power system options.

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<sup>8</sup> Powercor, *Regulatory Proposal 2026–31 – Part B – Explanatory Statement*, January 2025, p. 98.

<sup>9</sup> Powercor, *Regulatory Proposal 2026–31 – Part B – Explanatory Statement*, January 2025, p. 98.

<sup>10</sup> NER, cl. 6.4.3(a)(5).

<sup>11</sup> NER, cl. 6.3.2(a)(3); cl. 6.12.1(i).

<sup>12</sup> NER, cl. 6.5.8(a).

<sup>13</sup> NER, cl. 6.5.8(c).

### 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.<sup>14</sup>

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 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 Powercor 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 Powercor's opex.

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<sup>14</sup> 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).

## 5.4 Reasons for draft decision

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

### 5.4.1 Carryover amounts from the 2021–26 control period

Our draft decision is to include EBSS carryover amounts totalling –\$96.9 million from the application of the EBSS in the 2021–2026 period. This represents a –\$68.1 million difference from Powercor’s proposed carryover amount of –\$28.8 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 Powercor and its network users. It both rewards Powercor for any efficiency gains, and penalises it for any efficiency losses, it has made over the 2021–26 period.

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 for 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 Powercor adopted in its proposal.<sup>15</sup>

In our draft decision we have used updated consumer price index (CPI) values compared to those Powercor 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 Powercor submitted its proposal.<sup>16</sup> 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 Powercor submitted its proposal.<sup>17</sup>

#### 5.4.1.2 WACC inputs

Powercor’s proposal applied the nominal vanilla 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. We have used real vanilla WACC inputs because the EBSS operates in real terms, not nominal terms.

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<sup>15</sup> Powercor, *PAL MOD 1.06 – EBSS*, January 2025.

<sup>16</sup> 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*).

<sup>17</sup> 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>).



### 5.4.1.3 Movement in provisions, GSL payments and actual opex

We have updated the amounts for the movement in provisions and GSL payments for 2019, 2020, HY2021 and 2021–24, and for actual opex in 2021–22, based on reported data in the Annual and Benchmarking Regulatory Information Notice for the respective years.

### 5.4.1.4 Base year non–recurrent efficiency gain

We have included a non–recurrent efficiency gain of \$14.3 million base year opex. This ensure that forecast opex satisfies the opex criteria and the EBSS shares 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 Powercor with a windfall reward unrelated to genuine efficiency improvements. This approach ensures that the EBSS shares some of this significant underspend with consumers. Further detail is set out in Attachment 3, section 3.3.2.

## 5.4.2 Application in the 2026–31 period

Our draft decision is to continue to apply version 2 of the EBSS to Powercor during the 2026–31 period.<sup>18</sup> We consider applying the scheme will benefit the long–term interests of electricity consumers by providing a continuous incentive for Powercor to reduce its opex. Provided we forecast Powercor’s future opex using its revealed costs in the 2026–31 period, any efficiency gains (losses) that Powercor 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.<sup>23</sup> We provide details on these below.

### 5.4.2.1 Adjustments to forecast or actual opex when calculating carryover amounts

The EBSS states that we will exclude categories of costs that we do not forecast using a single year revealed cost forecasting approach in the following control period where doing so better achieves the requirements of the NER. 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

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<sup>18</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

the EBSS for the 2026–31 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, Powercor proposed that we exclude the opex component of its network innovation fund from the EBSS for the 2026–31 period.<sup>19</sup> The proposed network 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 period.

Consistent with our opex draft decision outlined in Attachment 3, where we have reclassified Powercor’s proposed customer assistance package step change as a category specific forecast, we will therefore also exclude these costs from the application of the EBSS over the 2026–31 period. On the basis that they are not forecast on revealed cost approach.

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 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 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.

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<sup>19</sup> Powercor, *Regulatory Proposal 2026–31 – Part B – Explanatory Statement*, January 2025, p. 98.

## Shortened forms

| Term             | Definition                             |
|------------------|--|
| AER              | Australian Energy Regulator            |
| CPI              | consumer price index                   |
| DMIA             | demand management innovation allowance |
| EBSS             | efficiency benefit sharing scheme      |
| GSL              | guaranteed service level               |
| NEL              | national electricity law               |
| NER or the rules | national electricity rules             |
| opex             | operating expenditure                  |
| WACC             | weighted average cost of capital       |