

# Final decision

AusNet Services electricity distribution  
determination

1 July 2026 – 30 June 2031

**Attachment 5 – Efficiency benefit sharing scheme**

**April 2026**

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### **Amendment record**

Version	Date	Pages
1	30 April 2026	11

## Contents

<b>5</b>	<b>Efficiency benefit sharing scheme</b> .....	<b>1</b>
5.1	Final decision .....	1
5.2	AusNet’s revised proposal.....	2
5.3	Assessment approach.....	3
5.4	Reasons for decision.....	5
	<b>Shortened forms</b> .....	<b>8</b>

## 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 final decision on the EBSS carryover amounts AusNet 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 Final decision

Our final decision is to include EBSS carryover amounts totalling  $-\$51.2$  million<sup>2</sup> from the application of the EBSS in the 2021–26 regulatory control period.<sup>3</sup> This represents a  $\$90.0$  million reduction relative to AusNet’s proposed carryover amount of  $\$38.8$  million<sup>4</sup>. This difference reflects the following adjustments we have made in our final decision:

- updated actual and forecast inflation for 2024–25 and 2025–26 respectively<sup>5</sup>
- updated actual and forecast real vanilla WACC inputs for 2025–26 and 2026–27
- used 2024–25 as the base year for purposes of calculating EBSS carryovers.

We discuss these updates further in section 5.4.1.

We set out our final decision on the EBSS carryover amounts AusNet accrued during the 2021–26 period in Table 5.1 and compare them with AusNet’s revised proposal.

**Table 5.1 Final decision on carryover amounts (\$million, 2025-26)**

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AusNet’s revised proposal	8.0	14.0	–	–6.9	23.8	38.8
AER final decision	–10.0	–4.0	–18.0	–25.0	5.9	–51.2
Difference	<b>–18.0</b>	<b>–18.0</b>	<b>–18.0</b>	<b>–18.1</b>	<b>–17.9</b>	<b>–90.0</b>

Source: AusNet, *ASD - AusNet Distribution – EBSS Model*, December 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.

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 AusNet, *ASD - AusNet - EDPR Revised Proposal 2026 – 31*, December 2025, p. 258.

5 Australian Bureau of Statistics (ABS), Consumer price index, Australia, released on 25 March 2026 (accessed on 8 April 2026); Reserve Bank of Australia (RBA), Statement on monetary policy, February 2026, (accessed on 15 March 2026: Statement on Monetary Policy – February 2026 3.5 Detailed forecast information).

Our final decision is to continue to apply version 2 of the EBSS to AusNet in the 2026–31 regulatory control period.

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

- debt raising costs
- Guaranteed Service Level (GSL) payments
- Software as a Service (SaaS)
- demand management innovation allowance mechanism
- any other costs treated as category specific forecast opex (such as the innovation fund).

We will not exclude AusNet’s proposed customer engagement and communications program from the EBSS because we have not included it in our alternative total forecast opex (as set out in Attachment 3).

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 AusNet’s revised proposal

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

AusNet proposed we include EBSS carryover amounts totalling \$38.8 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<sup>6</sup>.

AusNet also adjusted its actual opex to reverse any movement in provisions for the period 2018 to 2024–25 for the purpose of calculating the EBSS.

### 5.2.2 Application in the 2026–31 period

AusNet proposed we apply the EBSS in the 2026–31 regulatory control period.<sup>7</sup> 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<sup>8</sup>:

- debt raising costs
- GSL payments

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6 AusNet, ASD - AusNet Distribution – EBSS Model, December 2025.

7 AusNet, ASD - AusNet - EDPR Revised Proposal 2026 – 31, December 2025, p. 258.

8 AusNet, ASD - AusNet - EDPR Revised Proposal 2026 – 31, December 2025, p. 258.

- SaaS
- demand management innovation allowance mechanism
- Energy Safe Victoria levy
- any other costs treated as category specific forecast opex (such as innovation fund and customer assistance package costs) that are included in this forecast.

### 5.2.3 Stakeholder submissions

We received three submissions from Ausgrid, the Coordination Group and CCP32 with views on the EBSS.

Ausgrid was concerned that our treatment of insurance opex out-performance, including base year, negative step change and EBSS carryover adjustments, amounted to a retrospective clawback and weakened the ex-ante incentive framework.<sup>9</sup> The Coordination Group supported excluding innovation funding from the EBSS so any unspent amounts would be returned to customers.<sup>10</sup> CCP32 questioned whether the insurance underspend reflected genuine efficiency or a windfall and argued that any windfall should be returned to customers. CCP32 advised the AER to provide more public information on the extent to which AusNet’s management actions led to reductions in insurance premiums.<sup>11</sup>

## 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>12</sup>
- how the EBSS will apply to AusNet in the 2026–31 regulatory control period.<sup>13</sup>

The EBSS must provide for a fair sharing of opex efficiency gains and efficiency losses between AusNet and its network users.<sup>14</sup> We must also have regard to the following matters when implementing the EBSS:<sup>15</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 AusNet
- 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

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9 Ausgrid, *Submission - Victorian electricity distribution proposals 2026-31*, January 2026, p.1.

10 AusNet Coordination Group, *Submission - AusNet electricity distribution proposal 2026-31*, January 2026, p.17.

11 CCP32, *Submission - AusNet electricity distribution proposal 2026-31*, January 2026, p.28.

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

13 NER, cl. 6.3.2(a)(3); 6.12.1(9).

14 NER, cl. 6.5.8(a).

15 NER, cl. 6.5.8(c).

- the possible effects of the scheme on incentives for the implementation of non–network alternatives 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.<sup>16</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 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.

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<sup>16</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 decision

This section provides the reasons for our final decision on the carryover amounts that AusNet 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 period

Our final decision is to include EBSS carryover amounts totalling –\$51.2 million from the application of the EBSS in the 2021–26 regulatory control period. This represents a \$90.0 million reduction from AusNet’s proposed carryover amount of \$38.8 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 AusNet and its network users. Over the 2021–26 regulatory control period the EBSS both rewards AusNet for any efficiency gains it has made and penalises it for any efficiency losses.

#### 5.4.1.1 2024–25 Base year

We have applied a 2024–25 base year to calculate EBSS carryovers for the 2021–26 period, consistent with the base year used to calculate total forecast opex, as required by our Expenditure Forecast Assessment Guideline.<sup>17</sup> Our reasons for selecting the 2024–25 base year are set out in Attachment 3.

#### 5.4.1.2 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.<sup>18</sup>

In our final decision we have used updated consumer price index (CPI) values compared to those AusNet used in its proposal. For 2025–26 we used the inflation forecast for the year to June 2026 in the Reserve Bank of Australia’s February 2026 *Statement on monetary policy*, which was also published after AusNet submitted its proposal.<sup>19</sup>

#### 5.4.1.3 WACC inputs

AusNet’s proposal applies nominal vanilla actual and forecast WACC inputs to calculate EBSS carryovers. WACC inputs are relevant to this decision because of the Half Year and 2020 true-ups applied in the 2021–26 period. Our final decision uses the real vanilla actual/forecast WACC inputs, consistent with our standard approach for the purpose of calculating EBSS carryovers.

#### 5.4.1.4 SaaS costs

AusNet’s revised proposal has excluded non-recurrent software as a service (SaaS) cost from total opex for the 2021–2026 regulatory control period to calculate EBSS carryovers.

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<sup>17</sup> AER, AER expenditure forecast assessment guideline – distribution, November 2013, p. 22.

<sup>18</sup> AusNet, ASD - AusNet Distribution – EBSS Model, December 2025.

<sup>19</sup> Reserve Bank of Australia (RBA), Statement on monetary policy, February 2026.

Our final 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.

#### **5.4.1.5 Energy Safe Victoria levy**

AusNet’s revised proposal has excluded the Energy Safe Victoria (ESV) levy for the 2021–26 regulatory control period to calculate EBSS carryovers. The levy was erroneously included in reported opex for the years 2021–22, 2022–23 and 2023–24.<sup>20</sup> Our final decision excludes ESV levy costs from total actual opex when calculating EBSS carryovers, consistent with our standard approach to costs recovered through jurisdictional schemes.<sup>21</sup>

#### **5.4.1.6 Base year non-recurrent efficiency gain**

Consistent with our alternative total forecast opex decision, we have applied a negative \$5.9 million non-recurrent efficiency gain to remove the one-off or non-recurrent storm costs. This ensures a similar revenue outcome to that which would be achieved if the actual base year (with the one-off factor) was used to set the opex forecast in combination with the unadjusted EBSS carryover amounts.<sup>22</sup>

### **5.4.2 Application in the 2026–31 period**

Our final decision is to continue to apply version 2 of the EBSS<sup>23</sup> 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.<sup>24</sup> We provide details on these adjustments 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.

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<sup>20</sup> AusNet, *ASD - AusNet - EDPR Revised Proposal 2026 – 31*, December 2025, p. 258.

<sup>21</sup> AER, *Determination Request for the ESV Levy Scheme to be determined a jurisdictional scheme*, March 2021, p.6.

<sup>22</sup> AER, *AER explanatory statement – efficiency benefit sharing scheme* – November 2013 p.20-22.

<sup>23</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

<sup>24</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

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 accepted our draft decision that the opex component of its innovation fund be excluded from the EBSS for the 2026–31 regulatory control period. 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
- 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.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CPI	consumer price index
DMIA	demand management innovation allowance
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
ESV	Essential Services Victoria
GSL	guaranteed service level
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
WACC	Weighted average cost of capital

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