



DRAFT DECISION

AusNet Services
Transmission Determination
2022 to 2027

Attachment 8
Efficiency benefit sharing
scheme

June 2021

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Note

This attachment forms part of the AER's draft decision on AusNet Services' 2022–27 transmission determination. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management innovation allowance mechanism

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Attachment 14 – Negotiating framework

Contents

8	Efficiency benefit sharing scheme	4
8.1	Draft decision	4
8.2	AusNet Services’ proposal	6
8.2.1	Carryover amounts from the 2017–22 regulatory control period .	6
8.2.2	Application in the 2022–27 regulatory control period	6
8.2.3	Stakeholder submissions.....	7
8.3	Assessment approach	7
8.3.1	Interrelationships	7
8.4	Reasons for draft decision	9
8.4.1	Carryover amounts from the 2017–22 regulatory control period .	9
8.4.1.1	Inflation	9
8.4.1.2	Self-insurance costs – incremental efficiency gain in 2017–18.....	9
8.4.1.3	Self-insurance costs – reported opex	10
8.4.1.4	Updating actual and forecast figures for 2014–15 and 2016–17.....	11
8.4.2	Application in the 2022–27 regulatory control period	11
	Shortened forms	13

8 Efficiency benefit sharing scheme

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

This attachment sets out our draft decision and reasons on the EBSS carryover amounts AusNet Services has accrued over the 2017–22 regulatory control period and how we will apply the EBSS over the 2022–27 regulatory control period.

8.1 Draft decision

Our draft decision is to include EBSS carryover amounts totalling \$39.5 million (\$2021–22) from the application of the EBSS in the 2017–22 regulatory control period.¹ This is \$1.4 million (\$2021–22) higher than AusNet Services' proposal of \$38.1 million (\$2021–22).² This difference reflects adjustments we have made to correctly apply the scheme:

- we have updated actual and forecast figures for 2014–15 and 2016–17 to align with values reported in Economic Benchmarking regulatory information notices (RINs) and our final decision on forecast opex for the 2017–22 regulatory control period
- self-insurance:
 - we did not exclude self-insurance costs from actual and forecast opex for 2014–15 and 2016–17, as AusNet Services did
 - we have adjusted total reported opex to correctly account for actual self-insurance costs over the 2014–15 to 2018–19 period.
- we used updated inflation figures to convert amounts into 2021–22 dollars.

We set out our draft decision on AusNet Services' EBSS carryover amounts in the 2022–27 regulatory control period in table 8.1.

¹ NER, cl. 6.5.4(a)(5).

² AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, p. 180.

Table 8.1 Draft decision on carryover amounts (\$million, 2021–22)

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
AusNet Services' proposal	17.1	8.5	7.1	5.5	–	38.1
AER draft decision	18.2	8.6	7.1	5.6	–	39.5
Difference	1.1	0.1	0.1	0.1	–	1.4

Source: AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, p. 180; AER analysis.

Note: Numbers may not add up due to rounding. Differences of '0.0' and '-0.0' represent small variances and '-' represents no variance.

We will continue to apply version 2 of the EBSS to AusNet Services in the 2022–27 regulatory control period.³ Consistent with AusNet Services' proposal, we will exclude debt raising costs and easement land tax expenditure from the scheme because we have forecast them on a category specific basis and expect to continue doing so in the 2027–32 regulatory control period.⁴ We will also make other adjustments as permitted by the EBSS, such as removing movements in provisions and rebates under AEMO's Availability Incentive Scheme (as outlined in section 8.4).

While growth asset opex⁵ is forecast on a category specific basis, we have not excluded it from the scheme. This is because the opex related to these costs will be included in total opex in the next regulatory control period forecast using the revealed cost approach. This ensures any efficiency gains or losses are passed on to consumers. This approach is consistent with our 2017–22 final decision treatment of growth asset opex.⁶ We have set out in table 8.2 the opex forecasts we will use to calculate efficiency gains in the 2022–27 regulatory control period.

³ NER, cl. 6.12.1(9); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

⁴ AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, p. 180.

⁵ See Attachment 6, section 6.4.4.2 for further details.

⁶ AER, *Final decision, AusNet Services transmission determination 2017– 2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 10–11.

Table 8.2 Forecast total opex for the EBSS (\$million, 2021–22)

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Forecast total opex	247.0	247.5	263.5	263.6	263.6	263.8	264.0
Less debt raising costs	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Less easement land tax	-145.9	-145.9	-173.6	-173.6	-173.6	-173.6	-173.6
Forecast total opex for the EBSS	99.4	99.9	88.2	88.3	88.3	88.5	88.7

Source: AER, *AusNet Services 2022–27 – Draft Decision – Post tax revenue model*, June 2021; AER, *AusNet Services 2022–27 – Draft Decision – EBSS model*, June 2021; AER analysis.

Note: Numbers may not add up due to rounding.

8.2 AusNet Services’ proposal

8.2.1 Carryover amounts from the 2017–22 regulatory control period

AusNet Services proposed we include EBSS carryover amounts totalling \$38.1 million (\$2021–22) from the application of the EBSS in the 2017–22 regulatory control period in its revenue for the 2022–27 regulatory control period. AusNet Services excluded the following cost categories in calculating its EBSS carryover amounts:⁷

- debt raising costs
- easement land tax
- self-insurance from 2014–15 and 2016–17
- rebates under the Availability Incentive Scheme
- priority projects approved under the STPIS network capability component
- merits review opex
- movements in provisions related to opex.

8.2.2 Application in the 2022–27 regulatory control period

AusNet Services proposed to continue to apply the latest version of the EBSS in the 2022–27 regulatory control period. It also proposed to apply the following adjustments and exclusions:⁸

- debt raising costs
- easement land tax

⁷ AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, p. 178.

⁸ AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, p. 180.

- priority projects approved under STPIS network capability component
- rebates under the Availability Incentive Scheme
- movements in provisions related to opex.

8.2.3 Stakeholder submissions

The AER's Consumer Challenge Panel, sub-panel 23 (CCP23) supported the application of the EBSS on the basis that it is genuinely based on the business's revealed efficient opex costs and will fairly share efficiency gains and losses between the business and consumers. It considered the AER should apply the EBSS if and only if it is satisfied that this is the case.⁹

8.3 Assessment approach

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

- the revenue increments or decrements for each year of the 2022–27 regulatory control period arising from the application of the EBSS during the 2017–22 regulatory control period¹⁰
- how the EBSS will apply to AusNet Services in the 2022–27 regulatory control period.¹¹

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

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

8.3.1 Interrelationships

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

⁹ CCP23, *Advice to AER on AusNet Services Transmission regulatory proposal*, 12 February 2021, p. 65.

¹⁰ NER, cl. 6A.5.4(a)(5).

¹¹ NER, cll. 6A.14.1(1)(iv) and cl. 6A.14.3(d)(2).

¹² NER, cl. 6A.6.5(a).

¹³ NER, cl. 6A.6.5(b).

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 serves two important functions:

1. it removes the incentive for a service provider to inflate opex in the expected base year in order 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 six 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 Services 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 made largely in consequence of (and takes careful account of) our past and current decisions on AusNet Services' opex.

¹⁴ NER, cl. 6A.6.6(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).

8.4 Reasons for draft decision

8.4.1 Carryover amounts from the 2017–22 regulatory control period

Our draft decision is to include EBSS carryover amounts totalling \$39.5 million (\$2021–22) from the application of the EBSS in the 2017–2022 regulatory control period. This is \$1.4 million (\$2021–22) higher than AusNet Services' proposal of \$38.1 million (\$2021–22). This difference reflects adjustments we made to correctly apply the scheme compared with AusNet Services' proposed approach. We discuss each of these issues leading to this difference in more detail below.

We consider that the EBSS carryover amounts we have calculated provide for a fair sharing of efficiency gains and losses between AusNet Services and consumers. It both rewards AusNet Services for the efficiency gains it has made and penalises it for its efficiency losses. Further, we consider that the benefit to consumers, through lower forecast opex, is sufficient to warrant the EBSS carryover amounts we have determined.

8.4.1.1 Inflation

Consistent with our standard approach, we used unlagged inflation to convert amounts to 2021–22 real terms. We use unlagged inflation to be consistent with our opex forecast.¹⁵

We used updated inflation forecasts compared to those AusNet Services proposed. For 2020–21, we used the actual headline CPI figure published by the Australian Bureau of Statistics in March 2021, which was released after AusNet Services submitted its proposal.¹⁶ For 2021–22, we used the inflation forecast in the Reserve Bank of Australia's May 2021 *Statement on monetary policy*.¹⁷ This was also published after AusNet Services submitted its proposal.

8.4.1.2 Self-insurance costs – incremental efficiency gain in 2017–18

To calculate the incremental efficiency gain in 2017–18 (the first year of the current regulatory control period), we included self-insurance costs in AusNet Services' forecast and actual opex for 2014–15 and 2016–17. AusNet Services, however, incorrectly excluded these costs. This category of opex was excluded from the operation of the EBSS for the 2014–17 regulatory control period, but not for the 2017–22 regulatory control period.¹⁸ We did not exclude these costs in calculating the incremental efficiency gain in 2017–18 because excluding these costs would include

¹⁵ This ensures AusNet Services is not accruing carryovers that are not being passed on to customers.

¹⁶ Australian Bureau of Statistics, *Catalogue number 6401.0, Consumer price index*, March 2021.

¹⁷ Reserve Bank of Australia, *Statement on monetary policy, Appendix: Forecasts*, May 2021.

¹⁸ AER, *Final decision, AusNet Services transmission determination 2017–2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 10–11.

the incremental gains (losses) made between 2014–15 and 2016–17 in our calculated incremental gain (loss) for 2017–18. The basis for this is explained below.

To calculate the incremental gain (loss) made in the first year of a regulatory control period we start with the opex underspend (overspend) in that year. Since the forecast for that year will reflect the level of efficiency revealed in the base year in the previous regulatory control period, this underspend will reflect all efficiency gains or losses made after the base year. We then subtract any incremental gains or losses made after the base year in the previous regulatory control period. When we do this, we subtract efficiency gains made in all categories of opex subject to the EBSS in the new regulatory control period. This includes any categories of opex that we excluded from the EBSS in the previous regulatory control period, but are not excluded in the current regulatory period. This is because we are calculating the incremental efficiency gain in 2017–18 for those categories of expenditure subject to the EBSS in the 2017–22 regulatory control period. For this reason we included self-insurance costs in AusNet Services' forecast and actual opex for 2014–15 and 2016–17 to calculate the incremental efficiency gain for 2017–18.

AusNet Services agreed with this approach when we sought further information from it to understand its proposed approach.¹⁹

8.4.1.3 Self-insurance costs – reported opex

When AusNet Services reports its opex in its Annual RINs, it makes an adjustment to its statutory accounts for self-insurance. It removes the actual losses it incurs for self-insured risks and substitutes those costs with a notional self-insurance premium.²⁰

However in contrast with insurance, no premium is actually paid for self-insurance. Rather, a theoretical premium is calculated on an actuarial basis. Such a notional or theoretical amount is not an actual cost incurred in delivering prescribed transmission services. Nor is it a cost capable of being 'revealed' under our revealed cost forecasting approach. Rather, any notional self-insurance premium is an estimate based upon particular assumptions and accounting standards. It would be inappropriate to report an estimate, calculated at the start of the control period, as an actual opex amount. To do so would not share any efficiency gains or losses associated with AusNet Services' self-insured risks with AusNet Services' network users. Our approach to use actual losses incurred for self-insured risks is consistent with the AER's decision for AusNet Services' electricity distribution network for the 2016–20 control period.²¹

¹⁹ AusNet Services, *Information Request 01*, November 2020, p. 4.

²⁰ As reported in the 'PTS Adj' sheet in the Annual RINs.

²¹ Australian Competition Tribunal, *Application by AusNet Electricity Services Pty Ltd [2017] ACompT 3*, paragraph [163]. In that case AusNet Services appealed the AER's decision to include its actual self-insurance losses in the base year in base opex rather than including a notional self-insurance premium as a category specific forecast. The Australian Competition Tribunal affirmed the AER's decision.

8.4.1.4 Updating actual and forecast figures for 2014–15 and 2016–17

AusNet Services stated that it calculated its proposed EBSS carryovers in accordance with the AER final decision and determination on the application of the EBSS for both the 2014–17 and 2017–22 regulatory control periods.²² We have updated the EBSS carryover calculations to reflect reported opex from Economic Benchmarking RINs and forecast opex from our final decision on opex for the 2017–22 regulatory control period.²³ This had a small impact on a number of inputs, including reported and forecast opex, debt raising costs, easement land tax and rebates under the Availability Incentive Scheme for 2014–15 and 2016–17. AusNet Services confirmed these variances were due to rounding when we sought to understand these minor differences.²⁴

Our assessment of reported opex over the 2014–15 and 2018–19 period has identified a number of discrepancies in total opex for prescribed transmission services between the Category Analysis, Economic Benchmarking and Annual RINs. We will require explanations for these variances prior to our final decision to ensure reported opex inputs reflect the correct amounts.

8.4.2 Application in the 2022–27 regulatory control period

Our draft decision is to continue to apply version 2 of the EBSS to AusNet Services during the 2022–27 regulatory control period. We consider applying the scheme will benefit the long-term interests of electricity consumers as it will provide continuous incentives for AusNet Services to reduce opex. Provided we forecast AusNet Services' future opex using its revealed costs in the 2022–27 regulatory control period, any efficiency gains that AusNet Services achieves will lead to lower opex forecasts, and thus lower network tariffs.

Version 2 of the EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts.²⁵ We provide details on these below.

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. 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.

²² AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, p. 178.

²³ AER, *Final Decision - AusNet Services tower collapse pass through – PTRM*, September 2020; AER analysis.

²⁴ AusNet Services, *Information Request 01*, November 2020, p. 3.

²⁵ 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.

For the 2022–27 regulatory control period we have not forecast debt raising costs and easement land tax using a single year revealed cost forecasting approach and have excluded these costs from the EBSS for the 2022–27 regulatory control period.

Consistent with the 2017–2022 decision, we will also exclude rebates under AEMO's Availability Incentive Scheme and priority projects approved under the network capability component of STPIS because including them in the EBSS would distort the incentives provided under the schemes.²⁶

While growth asset opex²⁷ is forecast on a category specific basis, we have not excluded it from the scheme. This is because the opex related to these costs will be included in total opex in the next regulatory control period forecast using the revealed cost approach. This ensures any efficiency gains or losses are passed on to consumers. This approach is consistent with our 2017–22 final decision treatment of growth asset opex.²⁸

In addition to the excluded cost categories discussed above, we will also make the following adjustments when we calculate the EBSS carryover amounts accrued during the 2022–27 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 reported actual opex for the 2022–27 regulatory control period to reverse any movements in provisions
- adjust actual opex to add capitalised opex that has been excluded from the regulatory asset base
- adjust forecast opex and actual opex for inflation²⁹
- exclude categories of opex not forecast using a single year revealed cost approach for the regulatory control period beginning in 2022 where doing so better achieves the requirements of clause 6A.6.5 of the NER.³⁰

²⁶ AER, *Draft Decision, AusNet Services transmission determination 2017– 2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 13–14.

²⁷ See Attachment 6, section 6.4.4.2 for further details.

²⁸ AER, *Final decision, AusNet Services transmission determination 2017– 2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 10–11.

²⁹ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013, p. 7.

³⁰ AER, *Efficiency benefit sharing scheme for electricity network service providers, Explanatory Statement*, November 2013, p. 14.

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
EBSS	efficiency benefit sharing scheme
NEL	national electricity law
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
RIN	regulatory information notice
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
