



**Draft decision**

**TransGrid transmission determination**

**2015–16 to 2017–18**

**Attachment 9: Efficiency benefit sharing  
scheme**

November 2014

**© Commonwealth of Australia 2014**

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attribution 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos

any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications, ACCC, GPO Box 3131, Canberra ACT 2601, or

[publishing.unit@acc.gov.au](mailto:publishing.unit@acc.gov.au) .

Inquiries about this document should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001  
Tel: (03) 9290 1444  
Fax: (03) 9290 1457  
Email: [AERInquiry@ aer.gov.au](mailto:AERInquiry@ aer.gov.au)

AER reference: 53444

## Note

This attachment forms part of the AER's draft decision on TransGrid's revenue proposal 2015–18. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – maximum allowed revenue

Attachment 2 – regulatory asset base

Attachment 3 – rate of return

Attachment 4 – value of imputation credits

Attachment 5 – regulatory depreciation

Attachment 6 – capital expenditure

Attachment 7 – operating expenditure

Attachment 8 – corporate income tax

Attachment 9 – efficiency benefit sharing scheme

Attachment 10 – capital expenditure sharing scheme

Attachment 11 – service target performance incentive scheme

Attachment 12 – pricing methodology

Attachment 13 – pass through events

Attachment 14 – negotiated services

# Contents

<b>Note .....</b>	<b>9-3</b>
<b>Contents.....</b>	<b>9-4</b>
<b>Shortened forms .....</b>	<b>9-5</b>
<b>9 Efficiency benefit sharing scheme.....</b>	<b>9-7</b>
9.1 Draft decision.....	9-7
9.2 Proposal.....	9-8
9.3 Assessment approach .....	9-10
9.4 Interrelationships .....	9-10
9.5 Reasons for draft decision.....	9-10
9.5.1 Carryover amounts from 2008–09.....	9-11
9.5.2 EBSS carryover amounts from the 2009–14 regulatory control period.....	9-11
9.5.3 How the EBSS will apply in the 2014–18 period .....	9-13

## Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	aggregate service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
MAR	maximum allowed revenue
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
NTSC	negotiated transmission service criteria

Shortened form	Extended form
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TUoS	transmission use of system
WACC	weighted average cost of capital

## 9 Efficiency benefit sharing scheme

The efficiency benefit sharing scheme (EBSS) provides an additional incentive for service providers to pursue efficiency improvements in opex.

It is a key component of incentive regulation under the NER. Because opex is largely recurrent and predictable, opex in one period is generally a good indicator of opex in the next period. Where a service provider is relatively efficient, we use the actual opex it incurred in a chosen base year of the regulatory control period to forecast opex for the next regulatory control period.

To encourage a service provider to become more efficient it is allowed to keep any difference between its approved forecast and its actual opex during a regulatory control period. This is supplemented by the EBSS which provides the service provider with an additional reward for any reductions in opex it makes and additional penalties for any increases in opex. In total these rewards and penalties work together to provide a constant incentive for a service provider to pursue efficiency gains over the regulatory control period. The EBSS also discourages a service provider from incurring opex in the expected base year in order to receive a higher opex allowance in the following regulatory control period.<sup>1</sup>

When a service provider is rewarded for making efficiency gains, consumers benefit through lower prices in the next regulatory control period. This is because forecast opex in the next regulatory control period will reflect the service provider's lower level of opex in the current regulatory control period, and as a result, regulated prices will be lower.

During the 2004–09 regulatory control period, TransGrid operated under a predecessor of the EBSS, the efficiency carry forward mechanism (ECFM). During the 2009–14 regulatory control period TransGrid operated under the EBSS released in September 2007 for TNSPs (version one of the EBSS).<sup>2</sup> In the 2014–18 period TransGrid will receive an adjustment to its revenue for carryover amounts in relation to both the ECFM and version one of the EBSS.

In November 2013 we released version two of the EBSS. We will apply this version of the EBSS to TransGrid during the 2014–18 period.

### 9.1 Draft decision

We are not satisfied TransGrid's proposed ECFM and EBSS carryover amounts, totalling \$66.7 million (\$2013–14), comply with the requirements of the EBSS. We consider carryover amounts of \$61.0 million (\$2013-14) comply with the relevant requirements.

---

<sup>1</sup> These concepts are explained more fully in the explanatory statement to the EBSS, AER, *Efficiency benefit sharing scheme for electricity network service providers - explanatory statement*, November 2013.

<sup>2</sup> AER, *Electricity transmission network service providers: Efficiency benefit sharing scheme*, September 2007.

**Table 9-1 AER's draft decision on TransGrid's EBSS and ECFM carryover amounts (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18	Total
TransGrid's proposed carryover	20.5	11.5	13.4	21.3	66.7
Draft decision	20.9	13.7	16.1	10.4	61.0
Difference	0.4	2.2	2.6	-10.9	-5.7

Source: AER analysis

We will apply version two of the EBSS to TransGrid in the 2014–18 period. We will exclude the cost categories listed in section 9.5.3 from forecast and actual opex for the calculation of EBSS carryover amounts. Table 9-2 illustrates the total opex forecasts we expect we will use to calculate efficiency gains and losses for the 2014–18 period.

**Table 9-2 AER's draft decision on TransGrid's forecast opex for the EBSS (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18
Forecast opex for EBSS	149.4	148.1	148.5	149.4

Source: AER analysis

## 9.2 Proposal

### Carryover amounts accrued during 2008–09

In the 2004–09 regulatory control period, the efficiency carry forward mechanism (ECFM) applied to TransGrid. This was a predecessor to the EBSS.

At the time of the 2009–14 determination, the last year of the regulatory control period 2008–09 had not yet been completed. Therefore, the actual expenditure in this year was unknown. In TransGrid's 2009–14 determination, we used TransGrid's budgeted expenditure for 2008–09 to calculate the carryover amounts under the ECFM.

In that determination we also provided for an adjustment to the ECFM carryover amounts in the next determination to take account of the difference between estimated and actual opex in 2008–09. Where TransGrid spent less than its budgeted opex it would receive an additional ECFM carryover amount in the regulatory control period beginning in 2014. Where it spent more than its budgeted opex, it would receive a negative ECFM carryover amount.<sup>3</sup>

TransGrid spent less than its budgeted opex in 2008–09. The proposed ECFM adjustments to its revenues are outlined in Table 9-3.

**Table 9-3 Proposed adjustment for the ECFM (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18	Total
Proposed adjustment for the ECFM	0.0	5.4	5.4	5.4	16.1

Source: TransGrid, RIN, Worksheet 5.1(a)

<sup>3</sup> AER, *TransGrid transmission determination 2009–14 - final decision*, April 2009, p. 9.



## Carryover amounts accrued during the 2009–14 regulatory control period

In the 2009–14 regulatory control period, TransGrid was subject to version one of the EBSS. Under this scheme the EBSS carryover amounts are to be based on the difference between:

- approved forecast opex which is set out in our determination for TransGrid for the 2009–14 regulatory control period, and
- actual opex for the regulatory years from 2009–10 to 2012–13, less excluded cost categories.

The formula for calculating the carryover amounts are set out in version one of the scheme.<sup>4</sup>

TransGrid proposed the following EBSS carryover amounts from the 2009–14 regulatory control period be added to its regulated revenue in the 2014–18 period.

**Table 9-4 Proposed EBSS carryover amounts from the 2009–14 regulatory control period (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18	Total
Proposed EBSS carryover amounts	20.3	6.6	9.1	14.6	50.6

Source: TransGrid, RIN, Worksheet 5.1(b)

## Application of the EBSS in the 2014–18 period

TransGrid proposed that two EBSSs apply for the 2014-18 period.

For costs forecast using a revealed costs approach, TransGrid proposed we apply version two of the EBSS. It proposed to exclude costs from the scheme which were not forecast using a revealed cost approach. This included:

- debt raising costs
- insurance
- self-insurance
- network support
- Demand Management Innovation Allowance
- employee entitlements
- network capability incentive
- major operating projects.<sup>5</sup>

For major operating projects, TransGrid proposed an alternative EBSS. TransGrid considered that applying the standard EBSS in this case would lead to unbalanced incentives between opex and capex. TransGrid proposed an alternative scheme that it considered would better achieve balance with the incentives if faces to deliver efficient capex.<sup>6</sup>

<sup>4</sup> AER, *Electricity transmission network service providers: Efficiency benefit sharing scheme*, September 2007.

<sup>5</sup> TransGrid, *Revenue proposal*, May 2014, p. 219.

<sup>6</sup> TransGrid, *Revenue proposal*, May 2014, pp. 218-19.

### 9.3 Assessment approach

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

1. the revenue increments or decrements (if any) for each regulatory year of the 2014–19 period arising from the application of the EBSS during the 2009–14 regulatory control period.<sup>7</sup>
2. the values that are to be attributed to the EBSS parameters for any EBSS that is to apply to TransGrid in the 2014–19 period.<sup>8</sup>

The EBSS must provide for a fair sharing between service providers and network users of opex efficiency gains and efficiency losses.<sup>9</sup> We must also have regard to the following factors when implementing the EBSS:<sup>10</sup>

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

Details of how the EBSS will operate are set out in *Explanatory Statement - Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*.<sup>11</sup>

### 9.4 Interrelationships

The EBSS is intrinsically linked to a revealed cost forecasting approach for opex. Under this forecasting approach, the EBSS has two specific functions:

- To mitigate the incentive for a service provider to increase opex in the expected 'base year' to increase its forecast opex allowance for the following regulatory control period.
- To provide a continuous incentive for a service provider to make efficiency gains - service providers receive the same reward for an underspend and the same penalty for an overspend in each year of the regulatory control period.

Where we do not propose to rely on the revealed costs of a service provider in forecasting opex this has consequences for the service provider's incentives to make productivity improvements and consequently our decision on how we apply the EBSS.

### 9.5 Reasons for draft decision

This section provides the reasons for our draft decision on the EBSS carryover amounts from the 2009–14 regulatory control period. It also outlines our proposed application of the EBSS for the 2014–18 period.

---

<sup>7</sup> NER, cl. 6A.5.4(a)(5).

<sup>8</sup> NER, cl. 6A.14.1(iv).

<sup>9</sup> NER, cl. 6A.6.5(a).

<sup>10</sup> NER, cl. 6A.6.5(b).

<sup>11</sup> AER, *Explanatory Statement - Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013.

### 9.5.1 Carryover amounts from 2008–09

TransGrid recalculated what its ECFM carryover amounts should have been for the 2004–09 regulatory control period had it accurately estimated its opex for 2008–09. The proposed carryover amount is the discounted difference between what the carryover amount should have been based on TransGrid's actual opex for 2008–09 and what the carryover amount was based on its estimated opex for 2008–09. We are satisfied that TransGrid's methodology is consistent with how this adjustment was intended to operate.

The only difference between TransGrid's calculation and our calculation is the discount factor used to convert the carryover amounts from \$2008–09 to \$2013–14. TransGrid's discount factor is partly based on its proposed rate of return for the 2014–19 regulatory control period. We have substituted TransGrid's proposed rate of return with our proposed rate of return. The difference between TransGrid's proposed adjustment and our proposed adjustment is outlined in Table 9-5.

**Table 9-5 AER's draft decision on TransGrid's ECFM adjustment (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18	Total
TransGrid proposed ECFM adjustment	-	5.4	5.4	5.4	16.1
Draft decision ECFM adjustment	-	5.1	5.1	5.1	15.4
Difference	-	-0.2	-0.2	-0.2	-0.7

Source: AER analysis

### 9.5.2 EBSS carryover amounts from the 2009–14 regulatory control period

We have calculated the carryover amounts for the EBSS that applied during the 2009–14 regulatory control period in accordance with section 2.4 of the EBSS. Our calculation of the EBSS carryover amounts is different to TransGrid's calculation in two respects:

1. Treatment of movement in provisions for the 2009–14 regulatory control period

We have calculated the EBSS carryover amounts for the 2009–14 regulatory control period by removing increases in provisions allocated to actual opex and replacing those amounts with the cost incurred out on such obligations. We consider the cost incurred in meeting such obligations represents the actual cost incurred in delivering prescribed transmission services in the regulatory control period.

2. Treatment of easement maintenance in 2012–13

We have not made any adjustment to actual opex incurred in 2012–13 for uncompleted easement maintenance. This approach increases the EBSS carryover amounts relative to TransGrid's proposal but reduces TransGrid's forecast opex.

The difference between TransGrid's proposed carryover amounts and our proposed carryover amounts is outlined in Table 9-6. Our reasons for adopting our position on these two matters are detailed below.

**Table 9-6 EBSS carryover amounts from the 2009–14 regulatory control period (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18	Total
TransGrid proposed EBSS carryovers	20.2	6.5	9.0	14.5	50.2
Draft decision EBSS carryover amounts	20.9	8.5	10.9	5.2	45.6
Difference	0.7	2.0	1.9	–9.0	–4.6

Source: AER analysis

### Adjustment to actual opex for movements in provisions

A provision is a type of accrual accounting practice. A business records an increase in a provision where it expects it will incur a future cost. Increases in provisions are often allocated to expenditure, and in particular, to opex. Accordingly if a business considers it is likely it will incur a future cost, or it expects the future cost will be different to that it has previously recorded, reported actual expenditure will increase. This means a business may sometimes record increases in expenditure when it estimates there is a change in a liability it faces. It may not actually expect to incur the cost for some time and the cost will not necessarily eventuate in the amount predicted.

In the 2009–14 regulatory control period, TransGrid reported increases in provisions for long service leave and annual leave as actual opex. This affected its reported EBSS carryover amounts.

We consider that movements in provisions should be excluded from EBSS calculations. This is because the increases in provisions do not represent the actual cost incurred in delivering network services when calculating efficiency gains or losses. This is consistent with the applicable EBSS.

In calculating carryover gains or losses, the AER must be satisfied that the actual and forecast opex accurately reflects the costs faced by the TNSP in the regulatory control period.<sup>12</sup>

The EBSS is designed to reward businesses for becoming more efficient over time and penalise them for becoming less efficient. It is the actual costs a service provider incurs that we are concerned about when measuring efficiency improvements. In contrast, provisions are estimates of future costs a business expects to incur. A change in a provision is, in essence, a revised estimate. Estimating future costs usually involves making assumptions. These assumptions often change over time as new information becomes available, creating forecasting uncertainty. The uncertainty about provisions is what distinguishes them from other liabilities in the accounting standards.<sup>13</sup>

For example, to calculate the change in provisions for employee entitlements, a business must make assumptions about how much its current workers will be paid in the future, when it expects them to leave or retire, the rate at which they will take leave, as well as the time value of money. Significant discretion and judgment is involved in forming these assumptions. The valuation of the future liability can be very sensitive to small changes in assumptions. Accordingly, the amount charged to opex could change significantly with relatively minor changes in assumptions.

To reward or penalise a service provider for changes in provisions would reward or penalise it for changes in assumptions, not efficiency improvements. This undermines what the EBSS is intended to do, namely reward efficiency improvements and penalise declines in efficiency. While provisions might need to be treated in a particular way for accounting purposes, for regulatory pricing purposes,

<sup>12</sup> AER, *Electricity transmission network service providers - Efficiency benefit sharing scheme*, September 2007, p.6.

<sup>13</sup> AASB 137, clause. 11, p. 13.

treating provisions as actual costs can lead to perverse outcomes. Based on TransGrid's calculations its consumers would pay for efficiency carryover amounts that do not reflect changes in the underlying level of efficiency in providing transmission services during the 2009–14 regulatory control period. To reward TransGrid for changes in assumptions would be contrary to the aims of the EBSS under the NER.

### **Proposed adjustment to actual opex for easement vegetation management**

To calculate its proposed EBSS carryover amounts and its base year opex forecast, TransGrid added back opex for uncompleted easement maintenance in 2012–13. This had the effect of reducing TransGrid's EBSS carryovers but increasing its opex forecast for the 2014–18 period.

In 2012–13 TransGrid responded to a safety performance issue with an easement maintenance contractor. As a result the contract was terminated. TransGrid considered that it did not have sufficient time to contract a new provider to undertake the necessary easement maintenance works. Due to these circumstances, it considered that \$2 million in easement maintenance expenditure was not undertaken in 2012–13.<sup>14</sup>

As a result of this lower expenditure, TransGrid would have received a positive EBSS carryover amount. However, TransGrid proposed to reinstate the uncompleted maintenance expenditure into its base year for both calculating the EBSS and forecasting opex.

In the 2009–14 regulatory control period, TransGrid was subject to version one of the EBSS. This version of the EBSS does not allow for such an adjustment to the carryover amounts. We must be satisfied the actual opex accurately reflects the costs faced by the NSP during the regulatory control period. Including a cost that was not incurred into the regulatory control period in the EBSS calculations is not consistent with how the EBSS is intended to operate.

We also note that while our approach provides TransGrid with a greater EBSS carryover amount as a result of uncompleted easement maintenance in 2012–13, we have not reinstated the \$2 million in easement maintenance back into base year opex. This is discussed in attachment 7.

### **9.5.3 How the EBSS will apply in the 2014–18 period**

We will apply version two of the EBSS to TransGrid for the 2014–18 period.<sup>15</sup> We consider the EBSS is needed to provide TransGrid with a continuous incentive to pursue efficiency gains during the 2014–18 period. As we typically rely on a revealed cost approach to forecasting opex, we consider the EBSS is also needed to provide TransGrid with an incentive not to increase its opex in the expected base year.

In its submission, the EUAA noted the interactions between the EBSS and our opex forecasting approach. It supported the concept of the EBSS provided that the approved opex is prudent and efficient and that any underspend can be realised by customers rather than overtaken by inflated step changes and escalators.<sup>16</sup>

We agree with the EUAA that for consumers to benefit from the EBSS, reductions in actual opex must be passed through to consumers through a lower forecast. Otherwise, consumers could pay for EBSS carryovers without receiving the benefits of a lower forecast. As outlined in attachment 7 our approach

---

<sup>15</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

<sup>16</sup> EUAA, *Submission on TransGrid's Revenue Proposal 2014–19*, 8 August 2014, p. 11.

is to predominantly use a base year when forecasting opex. This helps to ensure that TransGrid's consumers benefit from reductions in opex TransGrid has made during the 2009–14 regulatory control period.

Version two of the EBSS specifies our approach to determining the length of the carryover period, calculating the incremental efficiency gains and adjusting forecast or actual opex when calculating carryover amounts. These are detailed below.

### **Length of carryover period**

The length of the carryover period for the 2014-18 period will be four years. This is to align the EBSS carryover period with the length of TransGrid's regulatory control periods (that is the 2014-15 transitional period and 2015-18 subsequent regulatory control period).

We generally prefer a five year carryover period to align the EBSS carryover period with the typical length of a regulatory control period. However, where the EBSS carryover period and the length of the regulatory control period do not match, there is a greater risk of perverse outcomes. For instance there is a risk a service provider could be rewarded for efficiency losses and penalised for efficiency gains.

### **Incremental efficiency gains**

We will calculate incremental efficiency gains differently depending on whether they are in:

- the first regulatory year
- the second regulatory year to the penultimate regulatory year
- the final regulatory year.

We will do this according to the formulas set out in version two of the EBSS.<sup>17</sup>

When calculating actual opex under the EBSS we will adjust reported actual opex for the 2014–18 regulatory control period to reverse any movements in provisions. As outlined in section 9.5.2 above, for regulatory purposes we consider actual opex net of movement in provisions best reflects the actual opex incurred by the NSP during the regulatory control period.

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

The EBSS also allows for exclusions of categories of costs from the EBSS where we do not use a single year revealed cost forecasting approach. This is designed 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 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, lower actual opex will not necessarily be passed through to consumers. Consumer should not pay for EBSS benefits where they do not receive the benefits of a lower forecast.

We propose to exclude the following categories of costs from the EBSS:

---

<sup>17</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013, pp. 5–7.

- debt raising costs
- network support
- opex on network capability incentive projects
- employer contributions for defined benefits superannuation.

We agree with TransGrid's proposal to exclude debt raising costs and network support costs. We have developed a category specific forecast for debt raising costs. The EBSS is not compatible with our forecasting approach for these costs. We have not included any network support costs in our opex forecast. However, changes in these costs are subject to pass through arrangements. To apply the EBSS to this category of costs, if incurred, would not be compatible with those arrangements.

We also consider opex spent on network capability projects should be excluded from the EBSS. These costs are funded through the network capability component of the transmission STPIS not through forecast opex. We need to exclude these costs from the EBSS so that TransGrid does not face EBSS penalties for undertaking these projects.

We do not propose to exclude opex on major operating projects, insurance and most employee entitlements from the EBSS. Our forecasting approach is different to TransGrid's proposal for these costs. TransGrid preferred to forecast major operating projects, insurance and the cost of long service leave and annual leave entitlements using a category-specific forecasting approach. As outlined in attachment 7, we use a single year revealed cost approach to forecast opex. Our forecast opex is inclusive of opex on these categories. We see no reason to exclude these costs from the EBSS where we use this methodology to forecast opex.

The only employee entitlement we will exclude from the EBSS is employer contributions for defined benefits superannuation. As outlined in attachment 7 we agree with TransGrid's forecasting approach for these costs.

We have not excluded self-insurance and a Demand Management Innovation Allowance from the EBSS. We have not approved a Demand Management Innovation Allowance for TransGrid so we have not excluded these costs from the EBSS. We also have not forecast any self-insurance for the 2014–18 period. This is consistent with TransGrid's forecasting approach.

In addition to these excluded cost categories we will also:

- adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the initial regulatory determination. This may include 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.
- exclude categories of opex not forecast using a single year revealed cost approach for the regulatory control period beginning in 2018 where doing so better achieves the requirements of clause 6A.6.5 of the NER.

Table 9-7 sets out our draft decision on TransGrid's target opex for the EBSS (total opex less excluded categories), against which we will calculate efficiency gains in the 2014–18 regulatory control period.

**Table 9-7 AER's draft decision on TransGrid's forecast opex for the EBSS (\$ million, 2013–14)**

	2014–15	2015–16	2016–17	2017–18
Draft decision forecast opex <sup>18</sup>	162.8	161.1	161.2	161.8
Forecast superannuation contributions	13.5	13.1	12.7	12.4
Forecast opex for the EBSS	149.4	148.1	148.5	149.4

Source: AER analysis

### Assessment of alternative EBSS

We do not propose to apply the EBSS that TransGrid proposed to apply to major operating projects.

As outlined in attachment 7 we have used a single year revealed cost forecasting approach to forecast most of TransGrid's opex. We have included opex incurred on major operating projects in 2012–13 in our opex forecast. We consider our current EBSS is the best sharing mechanism when we use this forecasting approach. An alternative EBSS is not necessary to achieve balance with capex incentives or any other reason.

In any case, even if we considered an alternative EBSS to be needed, we note we do not have the scope under the NER to do so. Under the NER we can only amend or replace the application of the EBSS if we do so at least fifteen months before the amendment or replacement coming into operation.<sup>19</sup> Even if we preferred such a scheme, it would not be possible to be put in place an alternative EBSS before TransGrid's next regulatory control period commenced.

<sup>18</sup> Exclusive of debt raising costs.

<sup>19</sup> NER, cl. 6A, 6.5(f).