# FINAL DECISION
# AusNet Services distribution determination
# 2016 to 2020

# Attachment 9 – Efficiency benefit sharing scheme

May 2016

AUSTRALIAN ENERGY REGULATOR

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# Note

This attachment forms part of the AER's final decision on AusNet Services' distribution determination for 2016–20. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

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 – Demand management incentive scheme

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Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – f-factor scheme

# Contents

# Shortened forms

| Shortened form | Extended form |
|---|---|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| AMI | Advanced metering infrastructure |
| augex | augmentation expenditure |
| capex | capital expenditure |
| CCP | Consumer Challenge Panel |
| CESS | capital expenditure sharing scheme |
| CPI | consumer price index |
| DRP | debt risk premium |
| DMIA | demand management innovation allowance |
| DMIS | demand management incentive scheme |
| distributor | distribution network service provider |
| DUoS | distribution use of system |
| EBSS | efficiency benefit sharing scheme |
| ERP | equity risk premium |
| Expenditure Assessment Guideline | Expenditure Forecast Assessment Guideline for Electricity Distribution |
| F&A | framework and approach |
| MRP | market risk premium |
| NEL | national electricity law |
| NEM | national electricity market |
| NEO | national electricity objective |
| NER | national electricity rules |
| NSP | network service provider |
| opex | operating expenditure |
| PPI | partial performance indicators |
| PTRM | post-tax revenue model |
| RAB | regulatory asset base |
| RBA | Reserve Bank of Australia |

| Shortened form | Extended form |
|---|---|
| repex | replacement expenditure |
| RFM | roll forward model |
| RIN | regulatory information notice |
| RPP | revenue and pricing principles |
| SAIDI | system average interruption duration index |
| SAIFI | system average interruption frequency index |
| SLCAPM | Sharpe-Lintner capital asset pricing model |
| STPIS | service target performance incentive scheme |
| 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.

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 reductions in opex and additional penalties for increases in opex. In total these rewards and penalties work together to provide a continuous 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.

During the 2011–15 regulatory control period, AusNet Services operated under the Electricity distribution network service providers' EBSS released in June 2008.[1]

## 9.1 Final decision

Our final decision is to approve an EBSS carryover amount of $25.9 million ($2015) from the application of the EBSS in the 2011–15 regulatory control period.[2] It is different to AusNet Services' revised proposal because we used a different approach to adjust for inflation. Our final decision EBSS carryover is higher than our preliminary decision carryover because we changed the way we adjusted movements in provisions.

Our final decision for the EBSS carryover amounts from the 2011–15 regulatory control period is outlined in Table 9.1.

**Table 9.1 AER's final decision on AusNet Services' EBSS carryover amounts ($ million, 2015)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|
| AusNet Services' revised proposed carryover | 25.2 | -4.5 | -5.4 | 13.2 | 0.0 | 28.4 |
| Final decision | 21.1 | -6.2 | -3.5 | 14.6 | 0.0 | 25.9 |

Source: AER analysis; AusNet Services, *Revised regulatory proposal*, *PTRM*, January 2016.

1 AER, *Electricity distribution network service providers - Efficiency benefit sharing scheme*, June 2008.

2 AER, *Electricity distribution network service providers' EBSS*, June 2008.

We have maintained our preliminary decision to apply version two of the EBSS to AusNet Services in the 2016–20 regulatory control period.[3]

When we apply version two of the EBSS, we will exclude the cost categories listed in section 9.5.2 from forecast and actual opex for the calculation of EBSS carryover amounts. Table 9.2 sets out our final decision on AusNet Services' target opex for the EBSS (total opex less excluded categories[4]), against which we will calculate efficiency gains in the 2016–20 regulatory control period.

**Table 9.2 AER's final decision on AusNet Services' forecast opex for the EBSS ($ million, 2015)**

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Total opex forecast | 225.1 | 228.7 | 234.0 | 238.4 | 243.4 |
| Less debt raising costs | –1.7 | –1.8 | –1.9 | –2.0 | –2.1 |
| Less GSL payments | –8.3 | –8.3 | –8.3 | –8.3 | –8.3 |
| Target opex for the EBSS | 215.0 | 218.5 | 223.8 | 228.1 | 233.0 |

Source: AER, *Final decision, AusNet Services determination, opex model*, May 2016.

Note: The demand management incentive allowance (DMIA) is not part of the opex building block and therefore is not included in the opex target.

## 9.2 Preliminary decision

In our preliminary decision we calculated an EBSS carryover of $14.0 million ($2015).[5] This was different to the carryover proposed by AusNet Services of $24.2 million because we:

- made an adjustment to movements in provisions to account for superannuation for defined benefits schemes
- made an adjustment to AusNet Services' allowed opex to account for new regulatory information notice (RIN) compliance costs.

Our preliminary decision was to apply version two of the EBSS to AusNet Services in the 2016–20 regulatory control period.[6]

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

[4] Debt raising costs and GSL payments.

[5] AER, *Preliminary decision, AusNet Services determination, Attachment 9*, October 2015, p. 9-6.

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

## 9.3 AusNet Services' revised proposal and submissions

In its revised proposal, AusNet Services did not accept our preliminary decision on the EBSS carryover amount from the 2011–15 regulatory control period. Instead it proposed a carryover amount of $28.4 million ($2015).[7] It considered:

- we incorrectly adjusted movements in provisions
- we did not calculate inflation consistently with the inflation measure set out in the 2011–15 determination.

AusNet Services mostly accepted our preliminary decision on how the EBSS will apply in the 2016–20 regulatory control period:[8]

- It accepted the exclusion of GSL payments, DMIA operating expenditure and losses on scrapping of assets.
- It did not accept the exclusion of debt raising costs as it is proposing to forecast these costs on a revealed cost basis as part of base year operating expenditure.

We received submissions from the Consumer Challenge Panel (CCP)[9] and the Victorian Energy Consumer and User Alliance (VECUA)[10] who commented on the EBSS in the context of the regulatory framework. We address these comments in our opex attachment. The CCP also commented on excluded cost categories in 2016–20. We address its concerns below. We did not receive submissions on the calculation of carryover amounts from the application of the EBSS in 2011–15.

## 9.4 Assessment approach

Under the NER we must decide:

1. the revenue increments or decrements (if any) for each regulatory year of the 2016–20 period arising from the application of the EBSS during the 2011–15 regulatory control period[11]
2. how any applicable EBSS is to apply to AusNet Services in the 2016–20 period.[12]

The EBSS must provide for a fair sharing between service providers and network users of opex efficiency gains and efficiency losses.[13] We must also have regard to the following factors when implementing the EBSS:[14]

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7 AusNet Services, *Revised regulatory proposal*, 6 January 2016, p. 5-8.

8 AusNet Services, *Revised regulatory proposal*, 6 January 2016, p. 5-8.

9 CCP3, *Submission to the Victorian DNSPs revenue reset, Comments on the preliminary decision,* pp. 9, 12–14, 24, 26, 61, 105.

10 VECUA, *Submission to the Victorian DNSPs revenue reset, Comments on the preliminary decision,* January 2016, p. 58.

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

12 NER, cll. 6.3.2(a)(3), 6.12.1(9).

13 NER, cl. 6.5.8(a).

- the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme
- the need to provide service providers with continuous incentives, so far as is consistent with economic efficiency, to reduce opex
- the desirability of both rewarding service providers for efficiency gains and penalising them for efficiency losses
- any incentives that service providers may have to capitalise expenditure
- the possible effects of the scheme on incentives for the implementation of non–network alternatives.

### 9.4.1 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 approved opex forecast 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, there are consequences for a service provider's incentives to make productivity improvements. This affects our decision on how we apply the EBSS. We have taken into account the interrelationship between the EBSS and our approach to opex forecasting in reaching our decision.

Incentives to reduce opex may also affect a service provider's incentives to undertake capex. We take into account these interactions in developing and implementing the EBSS as well as developing the CESS. For instance:

- In developing and implementing the EBSS, we must have regard to any incentives that service providers may have to capitalise operating expenditure as well as the possible effects of the scheme on incentives for the implementation of non-network alternatives.[15]
- In developing the CESS, we must take into account the interaction of the scheme with other incentives that service providers may have in relation to undertaking efficient opex or capex as well as the capex objectives and, if relevant, the opex objectives.[16]

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14 NER, cl. 6.5.8(c).
15 NER, cll. 6.4.3(a)(4),(5).
16 NER, cl. 6.5.8A(d).

## 9.5 Reasons for final decision

### 9.5.1 Carryover amounts from the 2011–15 regulatory control period

Our final decision is to approve an EBSS carryover of $25.9 million ($2015) from the application of the EBSS to AusNet Services in the 2011–15 regulatory control period. Our final decision is higher than our preliminary decision. This is because we corrected an adjustment we made to movements in provisions in response to information AusNet Services provided in its revised proposal.

Our calculation is in accordance with section 2.3 of the Electricity distribution network service providers EBSS.[17]

In the 2011–15 regulatory control period, AusNet Services was subject to the Electricity distribution network service providers EBSS.[18] Under this scheme, the EBSS carryover amounts are based on the difference between:

- approved forecast opex which is set out in our determination for AusNet Services for the 2011–15 regulatory control period adjusted for differences in network growth
- actual opex for the regulatory years from 2011–12 to 2014–15 less excluded cost categories.

The formulas for calculating the carryover amounts are set out in this scheme.[19]

The EBSS carryover we calculated ($25.9 million) is different to the carryover AusNet Services proposed ($28.4 million) because we used an unlagged inflation series when we converted forecast and actual opex to 2015 dollars. AusNet Services used a 15-month lagged inflation series when it converted forecast and actual opex to 2015 dollars.

#### Movements in provisions for superannuation costs

When we calculate the EBSS carryover amounts we remove the movement in provisions from a service provider's reported actual opex.[20] The movement in

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17 AER, *Electricity distribution network service providers - Efficiency benefit sharing scheme*, June 2008, pp. 4−6.

18 AER, *Electricity distribution network service providers - Efficiency benefit sharing scheme*, June 2008.

19 AER, *Electricity distribution network service providers - Efficiency benefit sharing scheme*, June 2008, pp. 5−6.

20 When we calculate the EBSS carryover, it is important that reported actual opex reflects actual outlays and not movements in provisions. Therefore our approach is to remove the movement in provisions from a service provider's reported actual opex when calculating the EBSS carryover amounts. A provision is a type of accrual accounting practice. A business records a provision for an anticipated cost when it expects it will incur a cost in the future but the amount and timing of the cost has not yet crystallised. For accounting purposes, increases in provisions are typically allocated to expenditure, and, in particular, to opex. 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. Similarly, if a

provisions relate to various types of provisions including provisions for defined benefits schemes.

In our preliminary decision, a point of disagreement with AusNet Services was whether it should or should not have included provisions for defined benefits schemes, when it removed the movement in provisions from its reported actual opex.

In its original proposal, AusNet Services: [21]

- excluded expenditure on superannuation for defined benefits schemes[22]
- adjusted actual opex for movements in provisions, including provisions for defined benefits schemes.

In our preliminary decision, we considered if AusNet Services had already excluded defined benefits as a cost category from actual opex, it should not need to adjust for the defined benefits component of movements in provisions.

We considered that by adjusting for movements in total provisions, AusNet Services excluded provisions for superannuation for defined benefits schemes twice: the first time when it adjusted actual opex for movements in provisions, and the second time when it excluded expenditure on superannuation for defined benefits schemes as a cost category. [23] Consequently, to avoid double counting, we deducted the defined benefits component from total movements in provisions.

In its revised proposal, AusNet Services stated that it had not double counted superannuation for defined benefits when it calculated the carryover amounts.[24] This was because the two adjustments it made related to superannuation costs for *different* groups of employees:

- The superannuation costs for defined benefits and retirement schemes EBSS exclusion captured costs related to the superannuation funds of *SPIMS employees*.[25]
- The movements in provisions adjustment captured changes in the balance of the superannuation provision for *AusNet Services' employees*.[26]

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business no longer considers it will incur a future cost, or it expects the amount of the cost will be lower than that it has previously recorded, reported actual expenditure will decrease.

21 AusNet Services, *Regulatory proposal*, April 2015, pp. 252–253.

22 In AusNet Services 2011–15 determination, we determined we would exclude superannuation costs for defined benefits schemes from the EBSS. We considered these costs were uncontrollable and that AusNet Services should not receive efficiency rewards or penalties for costs beyond its control.

23 AER, *Preliminary decision, AusNet Services determination 2016-20, Attachment 9*, October 2015, p. 9-10.

24 AusNet Services, *Revised regulatory proposal*, January 2016, p. 5-8.

25 SPI Management Services Pty Ltd (SPIMS) employees.

26 In its revised proposal, AusNet Services stated its superannuation provision represents the superannuation liability of the defined benefit superannuation funds of AusNet Services' employees, p. 5-8, January 2016.

Our different approaches to adjusting movements in provisions turned on our different understanding of what superannuation costs for defined benefits schemes should be excluded from the EBSS carryover amounts.

We asked AusNet Services to explain why it had excluded superannuation costs related to SPIMS employees and not superannuation costs related to AusNet Services employees from the EBSS.[27]

AusNet Services stated that during the 2011–15 reset, we specifically requested it not to include actuarial adjustments associated with the employee defined benefit scheme in the regulatory accounts as opex. It stated that all other superannuation costs were reported as provisions, not as part of opex.[28] AusNet Services considered the EBSS exclusion for superannuation costs was specific to SPIMS employees (i.e. the exclusion referred to the superannuation costs that were included directly in reported opex), and that non-SPIMS superannuation costs were to be treated consistently with other provisions.[29] AusNet Services stated that superannuation costs for defined benefits for AusNet Services employees were *not* recorded as opex in the regulatory accounts. Therefore, if they were not recorded as opex, they should be included in the provisions adjustment.

AusNet Services agreed with our interpretation of *how* to exclude non-SPIMS superannuation costs from reported opex but considered that such an adjustment was inconsistent with the AER's 2011–15 final decision.[30] AusNet referred to the 2011–15 final decision opex model which demonstrated that its interpretation of how superannuation costs should be treated was consistent with how they were treated in the approved opex forecast used in the EBSS for that period.[31]

We reviewed our 2011–15 final decision and agree that AusNet Services' proposed adjustment for superannuation is consistent with how the 2011–15 opex allowance was set. Having considered AusNet Services revised proposal, its responses to additional information requests[32] and our 2011–15 determination, we accept AusNet Services' approach to remove all movements in provisions from reported opex, including provisions for superannuation defined benefits schemes, was reasonable. The final decision reflects this approach and consequently increases the carryover amount from our preliminary decision.

## Inflation

How we adjust for inflation impacts both the EBSS and the opex forecast.

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27 AER, *Information request AusNet Services IR#043* [email to AusNet Services], 4 March 2016.

28 AusNet Services*, Response to information request IR#043* [email to AER], 8 March 2016.

29 AusNet Services*, Attachment - Issues relating to superannuation costs, provisions and the calculation of EBSS and spreadsheet* [email to AER], 31 March 2016.

30 AusNet Services, *Attachment - Issues relating to superannuation costs, provisions and the calculation of EBSS and spreadsheet* [email to AER], 31 March 2016, p. 2.

31 AER, *Final decision, Victorian distribution determination 2011–15*, 29 October 2010, AusNet Services opex model.

32 AusNet Services, *Response to information request IR#050* [email to AER], 18 March 2016.

### *CPI adjustment in the EBSS model*

When we calculate the EBSS carryover amounts, we compare the opex forecast to actual opex incurred. To do this, we convert both the opex forecast and actual opex into the same dollar terms. In the EBSS model for AusNet Services we converted:

- its opex forecast from December 2010 dollars[33] into December 2015 dollars
- its actual opex from nominal dollars[34] into December 2015 dollars.

When we converted the opex forecast and actual opex into December 2015 dollars, we used the most recent CPI available which is the December 2015 CPI. We refer to this as an unlagged CPI.[35] When AusNet Services converted the opex forecast and actual opex into December 2015 dollars it used the September 2014 CPI, which we refer to as a 15-month lagged CPI. We used an unlagged CPI to be consistent with our opex forecasting approach for 2016–20. AusNet Services used a 15-month lagged CPI to be consistent with its forecasting approach for 2011–15. We explain both reasons below.

### *CPI adjustment in the opex model*

When we forecast opex we use a base step trend approach. To establish the starting point for our forecast we convert the revealed opex in the base year into December 2015 dollars. We do this also using the most recent CPI available (unlagged),[36] whereas AusNet Services consider we should use a 15-month lagged CPI.[37]

We consider a starting point based on the most recent or actual CPI produces a more accurate opex forecast than a starting point based on a lagged CPI. An opex forecast that is not as accurate as possible may result in windfall gains or losses for AusNet Services. Given the timing of AusNet Services' determination we consider we do not need to use lagged CPI as we already know the actual CPI between June 2014 and December 2015.

AusNet Services consider we should use a lagged CPI to establish the starting point of its opex forecast to be consistent with the lagged CPI that we use to determine its prices and revenues for the same period.

Like AusNet Services, we previously considered it best to use lagged CPI to establish the starting point for the opex forecast in order to match the way we inflated revenues in the roll forward model (RFM). However, we have not used lagged CPI to forecast opex since undertaking TransGrid's regulatory determination in April 2015. At that time, TransGrid challenged our use of lagged CPI, stating that such an approach was inappropriate. It provided advice from Houston Kemp that stated that the rationale for using lagged CPI in the RFM did not apply when converting base opex from nominal to

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33 This is because the forecast was originally made in December 2010 dollars.

34 We assume nominal dollars are reported in June in the relevant year being the middle of the year.

35 AER, *Preliminary decision, AusNet Services determination, EBSS model*, October 2015.

36 AER, *Preliminary decision, AusNet Services determination 2016-20, Opex model*, October 2015.

37 AusNet Services, *Revised regulatory proposal*, 6 January 2016, p 4-8.

real terms in the opex model. This is because the conversion of base year opex to real dollars is not attempting to match revenues received by the network service provider during the current regulatory control period. Therefore, it considered it is inappropriate to use lagged CPI when converting base year opex to real dollars.[38]

We agreed with TransGrid's reasoning and used unlagged CPI to estimate its final decision opex forecast. For the same reasons, we used unlagged CPI to forecast opex in our preliminary decision for AusNet Services.

### *Consistency between the EBSS carryover accrued in 2011–15 and the opex forecast for 2016–20*

Because of the interaction between the carryover amounts accrued in 2011–15 and the starting point for the opex forecast for 2016–20, it is important we use the same CPI adjustments for both.

When we set the opex forecast from the 2014 base year, the reward (penalty) AusNet is paid for any underspend (overspend) in the base year needs to be consistent with the impact that underspend (overspend) has on the opex forecast. For example, if AusNet Services delivers lower opex in the base year it will:

- generate an increased EBSS carryover (marginal reduction in opex times the length of the carryover period)
- reduce the starting point for the opex forecast, reducing the total opex forecast for 2016–20 (marginal reduction in opex times the length of the regulatory control period).

The size of the EBSS reward should correspond to the size of the reduced opex forecast. However, if the CPI used to calculate the efficiency gains is not the same as the CPI used to establish the starting point for the opex forecast, this will not be the case and AusNet Services may get a windfall gain or loss as a result. For instance, if we inflated AusNet Services' actual opex by less in estimating the EBSS than in forecasting its opex, consumers would pay for an EBSS carryover amount attributable to lower inflation but they would not receive the benefits of a lower opex forecast. In implementing the EBSS we must ensure that benefits to consumers likely to result from the scheme are sufficient to warrant any reward or penalty distributors earn under the scheme.[39] If consumers do not receive the benefits of lower inflation through the opex forecast, we consider we should not use this modelling assumption in estimating the EBSS carryovers.

AusNet Services stated that using unlagged inflation would be inconsistent with the inflation embedded in AusNet Services' prices and revenues for the same period and that this inconsistency would result in a windfall gain or loss for AusNet Services.[40] We

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38 TransGrid, *Revised regulatory proposal*, 13 January 2015, p. 107.

39 NER, cl. 6.5.8(c).

40 AusNet Services, *Revised regulatory proposal*, 6 January 2016, pp. 5-9 to 5-10.

disagree with AusNet Services. As outlined above, we do not consider the inflation adjustment needs to be consistent with the PTRM. Rather it should be consistent with how we are forecasting opex for the next period.

Our final decision maintains our preliminary position to use an unlagged CPI when we calculate the efficiency gains and losses accrued under the EBSS. Because we use unlagged CPI and AusNet Services used lagged CPI, our calculations of the carryover amounts are different.

We note our opex model and EBSS model use a different six-month CPI adjustment method. The approach we use in the final decision is consistent with the approach we used in the preliminary decision, which was accepted by three of the Victorian distributors. The impact is not material; however, if we were to change the six-month CPI adjustment in the EBSS model to be consistent with the opex model, AusNet Services would receive a lower carryover. We will consider applying a consistent six-month CPI adjustment in both models going forward.

### 9.5.2 How the EBSS will apply in the 2016–20 regulatory control period

We have maintained our preliminary decision to apply version two of the EBSS to AusNet Services in the 2016–20 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 2016–20 regulatory control period will be five years. This aligns the EBSS carryover period with the length of AusNet Services' regulatory control periods.

#### 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.[41]

[41] AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013, pp. 7–9.

When calculating actual opex under the EBSS we will adjust reported actual opex for the 2016–20 regulatory control period to reverse any movements in provisions. We consider actual opex net of movement in provisions best reflects the actual opex incurred by the service provider during the regulatory control period.

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

The EBSS 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. Consumers should not pay for EBSS benefits where they do not receive the benefits of a lower opex forecast.

We will exclude the following categories of costs from the EBSS:

- debt raising costs
- GSL payments
- losses on the scrapping of assets.

As debt raising costs and GSL payments are not forecast based on revealed expenditure they should be excluded from the EBSS. We will also exclude losses on the scrapping of assets because they are an accounting adjustment to expenditure, rather than an actual outlay.[42]

### *Debt raising costs*

AusNet Services did not accept our preliminary decision to exclude debt raising costs from the EBSS.[43] This was because it forecast these costs on a revealed cost basis as part of base year operating expenditure. However, AusNet Services stated if we set debt raising costs using a benchmark rather than including them in the base year, these costs should be excluded from the EBSS calculation.[44] Consistent with our final decision to forecast debt raising costs using a benchmark and not revealed expenditure, we excluded them from the EBSS.[45]

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[42] We discuss our decision to exclude losses on the scrapping of assets in our preliminary decision; AER, *Preliminary decision, AusNet Services determination, Attachment 9*, October 2015, p. 9-12.

[43] AusNet Services, *Revised regulatory proposal*, 6 January 2016, p. 5-8.

[44] AusNet Services, *Revised regulatory proposal*, 6 January 2016, p. 5-10.

[45] AER, *Final decision, AusNet Services determination, Attachment 7*, May 2016.

***Other adjustments***

In addition to the excluded cost category 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
- adjust actual opex to remove demand management innovation allowance (DMIA) operating expenditure because it is not included in the opex forecast
- adjust actual opex to add capitalised opex that has been excluded from the RAB
- exclude categories of opex not forecast using a single year revealed cost approach for the regulatory control period beginning in 2021 where doing so better achieves the requirements of clause 6.5.8 of the NER.

In its submission, the CCP supported our decision to limit the number of categories excluded from the EBSS. It supported our decision to exclude GSL payments, DMIA and losses on the scrapping of assets from the scheme. However, it did not support our decision to exclude debt raising costs. The CCP considered there needs to be an incentive for network service providers to limit the costs of debt raising and including this in the EBSS would provide an appropriate incentive.[46]

We disagree that debt raising costs should be included in the EBSS. If debt raising costs were included in the EBSS, consumers might pay for efficiency gains that they would not receive through the opex forecast. As discussed above, this is because debt raising costs are not forecast based on revealed expenditure

[46] CCP3, *Submission to the Victorian DNSPs revenue reset, Comments on AER Preliminary Decisions*, 25 February 2016, p. 73.