



FINAL DECISION
Directlink transmission
determination
2015–16 to 2019–20

Attachment 9 – Efficiency
benefit sharing scheme

April 2015

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Note

This attachment forms part of the AER's final decision on Directlink's revenue proposal 2015–20. It should be read with other parts of the final decision.

The final 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 and negotiated services

Attachment 13 – pass through events

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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	annual 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
replex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and 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.

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 it makes and additional penalties for 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.

An EBSS did not apply to Directlink during the 2006–15 regulatory control period.

9.1 Final decision

We will apply version two of the EBSS to Directlink during the 2015–20 regulatory control period.¹ We will exclude debt raising costs from the calculation of EBSS carryover amounts. This is consistent with our draft decision. Table 9.1 illustrates the total opex forecasts we expect we will use to calculate efficiency gains and losses for the 2015–20 regulatory control period.

9.2 Draft decision

We proposed to apply version two of the EBSS to Directlink for the 2015–20 regulatory control period. We also proposed:²

- a five year carryover period
- to exclude debt raising costs from the calculation of the EBSS carryover amounts
- the efficiency gain in the first year will be the difference between actual opex and forecast opex in that year.

9.3 Directlink's revised proposal

Directlink did not comment on the EBSS in its revised proposal.

¹ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

² AER, *Draft decision, Directlink transmission determination, Attachment 9 EBSS*, November 2014, p. 9-8 to 10.

9.4 Assessment approach

Our assessment approach is the same as in the draft decision. In the draft decision we also discuss the interrelationships between the EBSS, our forecasting approach and other incentive schemes.³

Details of how version two of the EBSS will operate are set out in *Explanatory Statement - Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*. It 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 amounts⁴

9.5 Reasons for final decision

We will apply version two of the EBSS to Directlink during the 2015–20 regulatory control period.

Our final decision is the same as our draft decision. In its revised proposal, Directlink did not comment further on the EBSS, and we did not receive any submissions on the matter. Therefore, we see no reason for our final decision to change from our draft decision.

Table 9.1 sets out our final decision on Directlink's target opex for the EBSS (total opex less excluded categories) against which we will calculate efficiency gains in the 2015–20 regulatory control period.

Table 9.1 Final decision on Directlink's forecast opex for the EBSS (\$ million, 2014–15)

	2015–16	2016–17	2017–18	2018–19	2019–20	Total
Forecast opex for EBSS (excluding debt raising costs)	4.09	3.37	3.45	3.41	3.42	17.73

Note: Numbers may not add due to rounding.

³ AER, *Draft decision, Directlink transmission determination, Attachment 9 EBSS*, November 2014, p. 9-8.

⁴ AER, *Explanatory Statement - Efficiency Benefit Sharing Scheme for Electricity Network Service Providers*, November 2013.