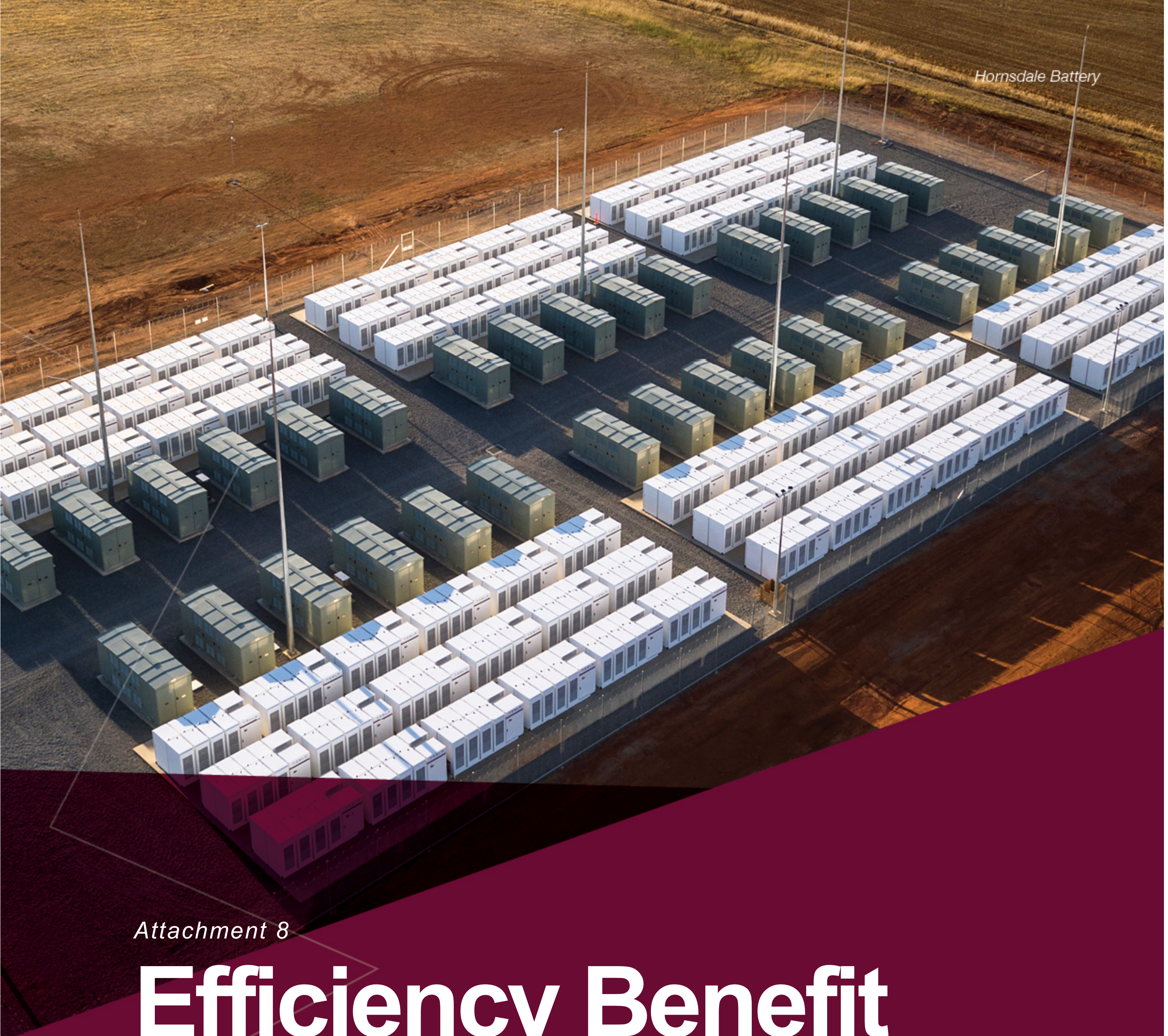

Attachment 8

Efficiency Benefit Sharing Scheme

Revenue Proposal 2023-24 to 2027-28

31 JANUARY 2022

ElectraNet

Company Information

ElectraNet Pty Ltd (ElectraNet) is the principal electricity transmission network service provider (TNSP) in South Australia.

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Note

This attachment forms part of our Revenue Proposal for the 2023-24 to 2027-28 regulatory period. It should be read in conjunction with the other parts of the Revenue Proposal.

Our Revenue Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 14:

- Revenue Proposal 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 (this document)
- Attachment 9 – Capital expenditure sharing scheme
- Attachment 10 – Service target performance incentive scheme
- Attachment 11 – Pricing methodology
- Attachment 12 – Pass through events
- Attachment 13 – Demand Management Innovation Allowance
- Attachment 14 – List of supporting documents

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Tables

8. Efficiency Benefit Sharing Scheme

8.1 Key points

- Our efficiency carryover amounts arising from the operation of the Efficiency Benefit Sharing Scheme (EBSS) in the current period have been calculated in accordance with version 2 of the EBSS, and the applicable provisions of the AER's Transmission Determination for the current period.
- We support the continued application of the EBSS for the 2023-24 to 2027-28 regulatory period, noting that the AER is planning to review it.[1]
- We have proposed several adjustments to the EBSS for the 2023-24 to 2027-28 regulatory period, including two new exclusions:
  - operating expenditure arising from actionable Integrated System Plan (ISP) projects; and
  - operating expenditure arising from Renewable Energy Zone (REZ) developments.

8.2 Introduction

This attachment presents information on the EBSS. In the framework and approach paper the AER explains that:[2]

> *"The EBSS is intended to provide a continuous incentive for TNSPs to pursue efficiency improvements in opex, and provide for a fair sharing of these between businesses and consumers. Consumers benefit from improved efficiencies through lower network prices in future regulatory control periods."*

The EBSS operates within a framework of incentive measures. The EBSS, Capital Expenditure Sharing Scheme and Service Target Performance Incentive Scheme are designed to operate together to apply balanced incentives for improvements in operating expenditure, capital expenditure and service outcomes. This encourages us to make efficient decisions on when and what type of expenditure to incur, and to efficiently trade off expenditure reductions with service quality and reliability.

The remainder of this attachment is structured as follows:

- Section 8.3 sets out the efficiency carry over amounts arising under the EBSS for the current regulatory period.
- Section 8.4 sets out our proposal for applying the EBSS in the 2023-24 to 2027-28 regulatory period.

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1 As noted in its Framework and Approach paper, the AER is currently planning to review its incentive schemes, including the EBSS, to ensure that they remain relevant and fit-for-purpose. Depending on the outcome of its review, ElectraNet may propose changes to the EBSS later in our revenue determination process.

2 AER, Framework and approach for ElectraNet for regulatory control period commencing 1 July 2023, July 2021, page 15.

8.3 Outcomes from the EBSS in the current period

In Attachment 6 we explain the efforts we have made during the current regulatory period to ensure that our operating expenditure is prudent and efficient.

The application of the EBSS in the current period gives rise to annual incentive bonuses and penalties, according to whether we have delivered savings compared to the AER's operating expenditure allowance. Under the EBSS, we retain annual operating expenditure efficiency gains and losses for a five-year period, after which these gains or losses are passed on to customers.

For the current regulatory period, we are subject to the scheme set out in the EBSS for Electricity Network Service Providers in November 2013. Our current regulatory determination specifies the following relating to the operation of the EBSS for the current regulatory period:[3]

"In calculating EBSS carryover amounts, the AER will exclude the following costs from the EBSS:

- debt raising costs.
- network support costs.

In addition to these excluded cost categories we will also:

- adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the 2018–2023 regulatory determination. This may include approved pass through amounts.
- 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 2023, where doing so better achieves the requirements of clause 6A.6.5 of the NER.

When calculating actual opex under the EBSS we will adjust reported actual opex for the 2018–23 period to reverse any movements in provisions."

In calculating our EBSS carryover amounts for the current regulatory period, we have:

- adopted the adjusted forecast operating expenditure for EBSS purposes as set out in Table 7 of our current revenue determination, as updated for approved contingent projects in the current regulatory period; and
- applied the adjustments listed above to our actual operating expenditure for the period[4].

In accordance with the requirements of the EBSS, the efficiency benefit in respect of the final year of the current regulatory period has been determined based on an imputed value for that year.

Table 8.1 shows our operating expenditure during the current regulatory period compared to the AER allowance. This data is applied in an EBSS model, which is submitted with this Revenue Proposal, to derive the bonus and penalty amounts that are included in our revenue requirement for

3 AER, Transmission Determination: ElectraNet 2018 to 2023, page 12.

4 There have been no approved cost pass through events that require adjustments to forecast opex for the purposes of the EBSS in the regulatory period to date. ElectraNet lodged an insurance cost pass through application in respect of the 2021-22 Regulatory Year on 15 December 2022 that is currently being assessed by the AER. Once a decision is made on this application under the Rules, ElectraNet expects that the required adjustments to forecast opex for the purposes of the EBSS would be made.

the 2023-24 to 2027-28 regulatory period. These annual bonus and penalty amounts are shown in Table 8.2.

Table 8.1: Historical cost performance for EBSS carryover calculation ($m 2022-23)

	2018-19	2019-20	2021-22	2022-23	2023-24	Total
Forecast operating expenditure for EBSS purposes	89.1	89.6	91.4	92.6	93.3	**456.0**
Actual operating expenditure	102.2	108.7	106.7	106.9	106.2	**530.7**
Less debt raising costs	-1.4	-1.4	-1.5	-1.5	-1.7	**-7.5**
Less network support costs	-9.2	-11.5	-11.3	-11.6	-9.6	**-53.2**
Less pass through amounts	0.0	0.0	0.0	0.0	0.0	**0.0**
Adjustment for provisions	0.7	-0.6	-0.3	-0.3	-0.3	**-0.8**
Adjusted actual operating expenditure	92.3	95.2	93.6	93.5	95.5[5]	**470.0**

The incentive arrangements drive us to reveal our efficient costs. While we continue to work hard to keep operating costs down, increasing cost pressures have driven our expenditures over the AER allowance in each year of the current regulatory period. This spending is incurred at shareholders' expense in order to meet our obligations to serve our customers.

As noted above, the data from the above table are applied in an EBSS model to derive the net amount for each year of the 2023-24 to 2027-28 regulatory control period, which is included in our revenue requirement, as shown in in Table 8.2. These payment amounts also take account of our performance in the final years of the 2013-18 regulatory period.

Table 8.2: EBSS carryover amounts for the forthcoming regulatory period ($m 2022-23)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
EBSS carry over amount	-2.9	1.0	3.4	0.0	-1.4	**0.1**

8.4 Scheme applying from 1 July 2023

The AER's framework and approach paper explains that the decision to apply the EBSS in the 2023-24 to 2027-28 regulatory period will depend on whether it expects to use a 'revealed cost' approach to set our operating expenditure allowance in the subsequent regulatory period (i.e. 2028-33). In particular, the AER notes that:[6]

> *"We will only apply the EBSS in the 2023–28 regulatory control period if we expect we will use a revealed cost forecasting approach to forecast opex for the 2028–33 period."*

As discussed in Attachment 6 we propose a revealed cost forecasting approach for the 2023-24 to 2027-28 regulatory period and, therefore, that the EBSS version 2 should apply for the 2023-24 to 2027-28 regulatory period.

We note, however, that the AER is currently planning to review its incentive schemes, including the EBSS, to ensure that they remain relevant and fit-for-purpose. Depending on the outcome of its

5 This is an imputed value in accordance with the EBSS.

6 AER, Framework and approach for ElectraNet for regulatory control period commencing 1 July 2023, July 2021, page 16.

review, we may propose any changes required to the EBSS later in our revenue determination process.

Clause 1.4 of EBSS version 2 enables the AER (amongst other adjustments) to:

- Adjust forecast opex to add any approved revenue increments or subtract any approved revenue decrements made after the initial regulatory determination. This may include approved pass through amounts or opex for contingent projects.
- Exclude categories of operating expenditure not forecast using a single year revealed cost approach for the regulatory control period, where doing so better achieves the requirements of clause 6A.6.5 of the Rules.

In accordance with this clause, we propose that the following items be excluded from the EBSS for the 2023-24 to 2027-28 regulatory period:

- debt raising costs;
- network support costs;
- pass through amounts;
- provision movements;
- operating expenditure arising from actionable ISP projects; and
- operating expenditure arising from REZ developments.

The first four exclusions are consistent with the operation of the EBSS during the current regulatory period, while the final two exclusions address new Rules provisions for the following reasons:

- **Actionable ISP projects**. Recent Rule changes introduce obligations on TNSPs to progress early works in relation to actionable ISP projects identified by AEMO. If such projects do not proceed to full regulatory approval, the expenditure incurred will likely need to be treated as operating expenditure. By its nature, this operating expenditure would be unexpected and no allowance would have been provided.

  Therefore, any operating expenditure of this kind should be excluded from the EBSS as no purpose is served by applying an EBSS penalty in respect of it. In fact, applying an EBSS penalty would actively encourage us to proceed with a project contrary to the economically efficient outcome.

- **REZ developments**. Recent Rule changes introduce obligations on TNSPs to prepare detailed REZ design reports if required by AEMO in a future ISP. Our proposal is to exclude REZ development costs from the EBSS, as these costs have not been recognised in our operating expenditure allowance. As noted in relation to actionable ISP projects, the incentive to proceed with the REZ planning process is best preserved by excluding these costs from the EBSS.

For establishing the controllable operating expenditure forecasts applicable to the EBSS calculation for the 2023-24 to 2027-28 regulatory period, we therefore propose the values in Table 8.3.

Table 8.3: EBSS operating expenditure forecasts ($m 2022-23)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Forecast operating expenditure	120.8	124.1	124.3	124.3	124.3	**617.8**
Less debt raising costs	1.7	1.8	1.8	1.7	1.7	**8.7**
Less network support costs	0.0	0.0	0.0	0.0	0.0	**0.0**
Less pass through amounts	0.0	0.0	0.0	0.0	0.0	**0.0**
Adjustment for provisions	0.0	0.0	0.0	0.0	0.0	**0.0**
Less actionable ISP project costs	0.0	0.0	0.0	0.0	0.0	**0.0**
Less REZ development costs	0.0	0.0	0.0	0.0	0.0	**0.0**
Forecast operating expenditure for EBSS purposes	**119.1**	**122.4**	**122.5**	**122.6**	**122.5**	**609.1**

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