

# REVENUE PROPOSAL 2019 - 2023

Attachment 9

Efficiency Benefit Sharing  
Scheme

28 March 2017

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## Company Information

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

For information about ElectraNet visit [www.electranet.com.au](http://www.electranet.com.au).

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## **Note**

This attachment forms part of our Revenue Proposal for the 2018-19 to 2022-23 regulatory control 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 15:

Revenue Proposal 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 (this document)

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

Attachment 15 – List of supporting documents

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## 9. Efficiency Benefit Sharing Scheme

### 9.1 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 1 of the EBSS, and the applicable provisions of the AER's Transmission Determination for the current period.
- We support the application of EBSS version 2 for our forthcoming regulatory period. We have proposed a number of adjustments that will apply for the purpose of the EBSS for the forthcoming regulatory period. Our proposed adjustments are in accordance with clause 1.4 of EBSS version 2.

### 9.2 Introduction

This attachment presents information on the EBSS. The AER's framework and approach paper explains that<sup>1</sup>:

*"The EBSS aims to provide a continuous incentive for TNSPs to pursue efficiency improvements in operating expenditure, and provide for a fair sharing of these between TNSPs and network users. Consumers benefit from improved efficiencies through lower regulated prices in the future."*

The information and calculations presented in this attachment accord with the requirements of the Rules.

The remainder of this attachment is structured as follows:

- Section 9.3 sets out the efficiency carry over amounts arising under the EBSS for the current regulatory period.
- Section 9.4 provides information on the EBSS that will apply in the forthcoming regulatory period.

### 9.3 Outcomes from the EBSS in the current period

Attachment 7 explains that we have reduced business operating costs during the current period through initiatives including right-sizing the organisation to match an environment of lower demand growth and lower capital expenditure; more cost effective maintenance planning; and more efficient procurement and delivery strategies.

As a consequence, the application of the EBSS in the current period gives rise to annual incentive bonuses and penalties which are to be included in our revenue allowance for the forthcoming period. Under the EBSS, annual operating expenditure efficiency gains or losses are retained by the business for a five year period.

For the current regulatory period, we are subject to the scheme set out in the AER's EBSS Final Decision for TNSPs in September 2007. The AER's Transmission determination for our current regulatory period specifies certain matters relating to the operation of the EBSS for the period, as follows:<sup>2</sup>

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<sup>1</sup> AER, Framework and approach for ElectraNet for regulatory control period commencing 1 July 2018, July 2016, page 13.

<sup>2</sup> AER, Transmission Determination: ElectraNet 2013–14 to 2017–18, page 7.

*“The AER will not adjust the forecast operating expenditure used to calculate the EBSS carryover amounts for changes in demand over the 2013–18 regulatory control period.*

*The AER will exclude the following cost categories from the EBSS for calculating EBSS carryovers:*

- *debt raising costs*
- *network support costs*
- *self-insurance costs*
- *land tax*
- *additional regulatory reset costs*
- *superannuation defined benefits contributions.*

*The AER will also adjust actual operating expenditure for the 2013–18 regulatory control period to reverse any movements in provisions, consistent with the approach used to forecast operating expenditure for the period.”*

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 1.6 of the AER’s Transmission Determination for the 2013-14 to 2017-18 period; and
- applied the adjustments listed above to our actual operating expenditure for the period.

In accordance with the requirements of the scheme, the efficiency benefit in respect of the final year of the current regulatory period has been determined based on forecast expenditure for that year.

The net carryover calculated in accordance with the scheme is summarised in Table 9.1 on the following page.

**Table 9.1: EBSS carryover (\$m June 2018)**

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Forecast operating expenditure for EBSS purposes	71.76	75.01	76.65	79.43	79.88	<b>382.73</b>
Actual operating expenditure	81.28	85.89	88.93	94.78	93.58	<b>444.46</b>
Less debt raising costs	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>
Less network support costs	(7.93)	(9.21)	(8.49)	(9.35)	(9.55)	<b>(44.53)</b>
Less self-insurance costs	(1.44)	(1.47)	(1.51)	(1.55)	(1.58)	<b>(7.56)</b>
Less land tax	(1.44)	(1.37)	(1.42)	(1.43)	(1.44)	<b>(7.11)</b>
Less additional regulatory reset costs	0.00	0.00	(0.58)	(0.87)	(0.63)	<b>(2.07)</b>
Less superannuation defined benefits contributions	0.71	0.18	0.00	0.00	0.00	<b>0.89</b>
Adjustment for provisions	(0.86)	(0.81)	(0.53)	(0.68)	(0.68)	<b>(3.56)</b>
Adjusted actual operating expenditure	70.30	73.21	76.40	80.90	79.70	<b>380.51</b>
Year 5 imputed operating expenditure					79.63	
Operating expenditure efficiency	0.31	0.35	(1.56)	(1.72)	1.72	
EBSS carry over amount						<b>(1.94)</b>

#### 9.4 Scheme applying from 1 July 2018

The AER’s framework and approach paper states that the latest version of the EBSS in existence at the commencement of the 2019–23 regulatory control period will apply to us. The AER expects this to be EBSS version 2 (November 2013).

We support the application of EBSS version 2 for our forthcoming regulatory period.

Clause 1.4 of EBSS version 2 enables the AER to exclude from EBSS calculations “categories of operating expenditure not forecast using a single year revealed cost approach for the regulatory control period n+1 where doing so better achieves the requirements of clauses 6.5.8 and 6A.6.5 of the NER which are to provide for a fair sharing between TNSPs and customers of the efficiency gains (or losses) derived from the TNSPs’ operating expenditure performance.

In accordance with this provision, we propose that the following operating expenditure items be excluded from the EBSS that will apply in the forthcoming regulatory period:

- debt raising costs;
- network support costs;
- provision movements; and
- insurance and self-insurance.

In addition to the exclusions noted above, we also propose to adjust the forecast operating expenditure to reflect any approved pass through amount. This adjustment is consistent with those permitted under clause 1.4 of version 2 of the EBSS.

For the purpose of establishing the controllable operating expenditure forecasts applicable to the EBSS calculation for the forthcoming regulatory period, we propose the values as outlined in Table 9.2 below.

**Table 9.2: EBSS operating expenditure forecasts (\$m 2017-18 mid-year)**


	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Forecast operating expenditure	85.94	86.37	87.21	87.97	88.39	<b>435.87</b>
Less debt raising costs	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	<b>(0.75)</b>
Less network support costs	(8.93)	(8.97)	(9.03)	(9.09)	(9.16)	<b>(45.18)</b>
Less self-insurance costs	(1.43)	(1.44)	(1.45)	(1.46)	(1.47)	<b>(7.24)</b>
Less insurance costs	(2.72)	(2.73)	(2.75)	(2.77)	(2.79)	<b>(13.76)</b>
Adjustment for provisions	(0.68)	(0.72)	(0.72)	(0.73)	(0.74)	<b>(3.59)</b>
<b>Forecast operating expenditure for EBSS purposes</b>	<b>72.04</b>	<b>72.35</b>	<b>73.12</b>	<b>73.77</b>	<b>74.08</b>	<b>365.34</b>





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