

First Proposed

Electricity Transmission Network Service Provider

Efficiency Benefit Sharing Scheme

Version 01

January 2007



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Inquiries concerning the currency of these Guidelines should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Ph: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@aer.gov.au

AMENDMENT RECORD

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1. Nature and Authority

1.1 Introduction

Consistent with the requirements of clause 6A.6.5 of the *National Electricity Rules* (NER), this document sets out the Australian Energy Regulator's (AER) efficiency benefit sharing scheme (Scheme) for electricity *transmission network service providers* (TNSPs).

1.2 Authority

Clause 6A.6.5 of the NER requires the AER to develop the Scheme in accordance with the *transmission consultation procedures*.

1.3 Role of this Scheme

- (a) This document defines the Scheme and associated *efficiency benefit sharing parameters*.
- (b) The obligation of a TNSP to comply with the Scheme:
 - (1) is additional to any obligation imposed under any other law applying to a TNSP, and
 - (2) does not derogate from such an obligation.

1.4 Confidentiality

The AER's obligations regarding confidentiality and the disclosure of information provided to it by a TNSP are governed by the *Trade Practices Act 1974*, the *National Electricity Law* and the NER.

1.5 Definitions and interpretation

- (a) In this Scheme, the words and phrases presented in italics are defined in the NER.
- (b) Explanations in this Scheme about why certain information is required are provided for guidance only.

1.6 Processes for revision

The AER may amend or replace this Scheme from time to time in accordance with clause 6A.6.5(f) of the NER and the *transmission consultation procedures*.

1.7 Version history and effective date

A version number and an effective date of issue will identify every version of this Scheme.

2. Efficiency benefit sharing scheme for operating expenditure

2.1 Introduction

This section sets out the AER’s general approach to providing incentives for a TNSP to reduce its operating expenditure and the sharing of any resulting efficiency gains or losses between the TNSP and *transmission network users*.

2.2 The efficiency benefit sharing scheme

This section describes how the AER will calculate efficiency gains or losses using the relevant *efficiency benefit sharing parameters*, and the method by which gains or losses are shared between TNSPs and *transmission network users*.

The AER will calculate an efficiency gain or loss in a year as follows:

$$E_1 = F_1 - A_1,$$

where A_1 is the actual operating expenditure incurred by the TNSP for year 1 of the *regulatory control period* and F_1 is the forecast operating expenditure for that year as accepted by the AER in the relevant *revenue determination*.

Gains or losses that arise in the second and subsequent years of the *regulatory control period* will be calculated as:

$$E_t = (F_t - A_t) - (F_{t-1} - A_{t-1})$$

where

- E_t is the efficiency benefit/loss in year t
- A_t, A_{t-1} are the actual operating expenditure incurred in years t and $t-1$ respectively,
- F_t, F_{t-1} are the forecast operating expenditure for the years t and $t-1$ respectively.

The sample calculations contained in Attachment A illustrate the calculation and adjustment process that underpins the Scheme. The efficiency benefit/loss for each year will be retained by the TNSP for five years following the year in which it is incurred, after which the total value of the gain or loss is removed from the TNSP’s expenditure forecast and notionally ‘shared’ with *transmission network users*. Because of the forward-looking nature of the Scheme, the sharing of efficiency gains or losses will not occur until the *regulatory control period* immediately following the implementation of the Scheme.

As the *revenue determination* for the next *regulatory control period* will usually occur prior to the completion of the current period, the AER will estimate the actual operating expenditure required to calculate gains or losses for the final year of the current period using information provided by the TNSP. Where differences arise between this estimate and the actual expenditure amount of the final year, this will be accounted for through an appropriate adjustment agreed to by the AER and the TNSP.

The efficiency benefit sharing calculation will be undertaken in such a way as to ensure inflation does not erode the value of any benefit/loss to be retained by the TNSP. A sample calculation is included in Attachment A.

The AER will use its discretion in carrying over any efficiency losses of a particular *regulatory control period* as the resulting deductions from revenues in the subsequent period may affect the financial viability and capacity of the TNSP to provide adequate services.

The AER will also use its discretion in determining whether changes in operating expenditure have arisen due to unexpected changes in demand or other events outside the control of the TNSP, and whether to include these changes in the calculation of efficiency gains or losses. Allowed increases or decreases in expenditures associated with recognised *pass through events* will be excluded from the actual and forecast expenditure amounts used to calculate efficiency gains or losses under this Scheme.

2.3 Parameters

The *efficiency benefit sharing scheme parameters* referred to in section 2.2 apply universally to all businesses subject to this Scheme.

3. Attachment A

Example of the efficiency benefit sharing scheme calculation (in nominal terms)

Year	1	2	3	4	5	6	7	8	9	10
Forecast expenditure	101.00	100.00	103.00	95.00	90.00	80.00	82.00	81.00	80.00	79.00
Actual	100.00	90.00	95.00	80.00	70.00*					
Incremental Gains/ loss (Real values)	1.00	9.00^	-2.00	7.00	5.00					
Efficiency Carryover										
Yr 1		1.02	1.04	1.06	1.08	1.10				
Yr 2			9.18	9.36	9.55	9.74	9.94			
Yr 3				-2.04	-2.08	-2.12	-2.16	-2.21		
Yr 4					7.14	7.28	7.43	7.58	7.73	
Yr 5						5.10	5.20	5.31	5.41	5.52
Carry forward amounts						21.11	20.40	10.67	13.14	5.52
Expenditure used for pricing purposes	101.00	100.00	103.00	95.00	90.00	101.11	102.40	91.67	93.14	84.52

* This figure is an estimate as the actual operating expenditure amount is not known at the time of the regulatory reset. The correction for this estimate has been omitted for simplicity.

$$^{\wedge} E_t = (F_t - A_t) - (F_{t-1} - A_{t-1})$$

$$9 = (100 - 90) - (101 - 100)$$

Notes:

- Efficiency benefit from second regulatory period omitted for clarity
- Assumed an inflation rate of 2% p.a.
- Figures are for illustrative purposes only