

Attachment 8

Efficiency Benefit Sharing Scheme

2020-25 Revised
Regulatory Proposal
10 December 2019

This section outlines:

- › the outcomes from the Efficiency Benefit Sharing Scheme during the 2015-20 Regulatory Control Period.



Company information

SA Power Networks is the registered Distribution Network Service Provider for South Australia. For information about SA Power Networks visit sapowernetworks.com.au

Contact

For enquiries about this Revenue Proposal please contact:

Richard Sibly

Head of Regulation

SA Power Networks

GPO Box 77 Adelaide SA 5001

sapn2020proposal@sapowernetworks.com.au

Disclaimer

This document forms part of SA Power Networks' Regulatory Proposal to the Australian Energy Regulator for the 1 July 2020 to 30 June 2025 regulatory control period. The Proposal and its attachments were prepared solely for the current regulatory process and are current as at the time of lodgement.

This document contains certain predictions, estimates and statements that reflect various assumptions concerning, amongst other things, economic growth and load growth forecasts. The Proposal includes documents and data that are part of SA Power Networks' normal business processes and are therefore subject to ongoing change and development.

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Note

This attachment forms part of our Proposal for the 2020-25 Regulatory Control Period. It should be read in conjunction with the other parts of the Proposal.

Our Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 18:

Document	Description
	Regulatory Proposal overview
Attachment 1	Annual revenue requirement and control mechanism
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
Attachment 9	Capital Expenditure Sharing Scheme
Attachment 10	Service Target Performance Incentive Scheme
Attachment 11	Demand management incentives and allowance
Attachment 12	Classification of services
Attachment 13	Pass through events
Attachment 14	Alternative Control Services
Attachment 15	Negotiated services framework and criteria
Attachment 16	Connection Policy
Attachment 17	Tariff Structure Statement Part A
Attachment 17	Tariff Structure Statement Part B - Explanatory Statement
Attachment 18	List of Proposal documentation

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8 Efficiency benefit sharing scheme

8.1 Overview

Table 8-1 sets out and compares the final Efficiency Benefit Sharing Scheme (**EBSS**) carryovers in SA Power Networks' Regulatory Proposal (**Original Proposal**) for the 2020-25 regulatory control period (**RCP**), the Australian Energy Regulator's (**AER's**) position in its draft decision on our Original Proposal (**Draft Decision**) and our response to the Draft Decision (**Revised Proposal**).

Table 8-1: Summary of EBSS carryovers in SA Power Networks' Original Proposal, AER's Draft Decision and SA Power Networks' Revised Proposal

Original Proposal	AER Draft Decision	Revised Proposal
-30.1 (\$ million)	-30.7 (\$ million)	4.6 (\$ million)

The EBSS provides a continuous incentive for distribution network service providers (**DNSPs**) to pursue efficiency improvements in operating expenditure (**opex**) and provides for a fair sharing of savings between DNSPs and customers. Customers benefit from improved efficiencies through lower network prices in future RCPs.

In its Draft Decision, the AER included an EBSS carryover loss for the 2015-20 RCP totalling -\$30.7 million (\$ June 2020) for SA Power Networks¹. This was \$0.6 million lower than the amount that we proposed in our Original Proposal. The AER indicated that it would update its calculations for the actual opex for the 2018/19 regulatory year in its final decision for the 2020-25 RCP².

We have adopted the AER's methodology for the calculation of our EBSS carryover for the 2015-20 RCP for the purposes of our Revised Proposal but have updated the AER's calculation to include actual opex for the 2018/19 regulatory year. Our proposed EBSS carryover now totals a gain of \$4.6 million as a result of our opex being lower than forecast in the 2018/19 regulatory year and adjustments for movements in opex provisions.

Our EBSS carryovers as per our Original Proposal, the AER's Draft Decision and our Revised Proposal are summarised in Table 8-2 below:

Table 8-2: SA Power Networks' EBSS carryover in 2020-25 RCP (June 2020, \$ million)

EBSS Carryover	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Original Proposal	9.0	-24.0	-5.1	-9.9	-	-30.1
Draft Decision	3.7	-26.8	-0.8	-6.8	-	-30.7
Revised Proposal	12.3	-17.9	8.1	2.1	-	4.6

The EBSS is intrinsically linked to the forecasting approach for opex. The improvement in our EBSS is offset by a reduction in our base year opex of around \$58 million from our Original Proposal, refer Attachment 6 – Operating expenditure.

The AER will continue to apply version 2 of the EBSS to SA Power Networks in the 2020-25 RCP.³

¹ AER, *Draft Decision for SA Power Networks Distribution Determination 2020 to 2025, Attachment 8: Efficiency benefit sharing scheme (Attachment 8)*, page 5.

² AER, *Attachment 8*, page 5.

³ AER, *Attachment 8*, page 6.

8.2 Original Proposal

The AER applied version 2 of the EBSS to SA Power Networks for the 2015-20 RCP in our distribution determination for the 2015-20 RCP (**2015 Determination**).⁴ The 2015 Determination also identified certain categories of operating costs to be adjusted or excluded from the operation of the EBSS for the 2015-20 RCP. SA Power Networks calculated the carryover gain or loss for the 2015-20 RCP in accordance with the EBSS and the 2015 Determination.

SA Power Networks excluded the following categories of expenditure in calculating its 2015-20 RCP carryover amount:⁵

- debt raising costs;
- demand management innovation allowance opex (**DMIA**);
- movements in provisions relating to opex; and
- self-insurance, insurance, superannuation, non-network alternatives, regulatory information notice (**RIN**) compliance costs and pass through opex for the 2013/14 and 2014/15 regulatory years.

Due to the timing of expenditure in the 2015-20 RCP, we forecast a carryover EBSS loss of \$30.1 million as shown in Table 8-3 below:

Table 8-3: Original Proposal forecast EBSS carry-over amount for the 2015-20 RCP

June 2020, \$ million	2020/21	2021/22	2022/23	2023/24	2024/25	Total
EBSS Carryover	9.0	-24.0	-5.1	-9.9	-	-30.1

We also proposed that the AER would continue to apply version 2 of the EBSS to SA Power Networks for the 2020-25 RCP, with the same adjustments and cost exclusions that applied to the 2015-20 RCP.

8.3 AER's Draft Decision

In its Draft Decision, the AER included a carryover loss of -\$30.7 million for application of the EBSS for the 2015-20 RCP, as shown in Table 8-4 below:

Table 8-4: Draft Decision EBSS carry-over amount for the 2015-20 RCP

June 2020, \$ million	2020/21	2021/22	2022/23	2023/24	2024/25	Total
EBSS Carryover	3.7	-26.8	-0.8	-6.8	-	-30.7

The AER's Draft Decision was \$0.6 million lower than SA Power Networks' forecast in our Original Proposal, due to the AER:⁶

- applying different inflation values to convert to \$ June 2020;
- not excluding the forecast and actual opex of specific cost categories in 2013/14 and 2014/15 from total opex (other than excluding the cost of self-insurance) that were excluded from SA Power Networks' EBSS in the 2010–15 RCP but not the 2015–20 RCP;
- adding the opex approved for approved pass through events to forecast opex rather than excluding the actual opex associated with these events; and
- removing different amounts of movements in provisions from actual opex.

⁴ AER, Attachment 8.

⁵ SA Power Networks, Reset RIN – Workbook 5 – EBSS, January 2019.

⁶ AER, Attachment 8, page 5.

The AER's Draft Decision is based on SA Power Networks' estimated opex for the 2018/19 regulatory year. The AER will update its calculation of the carryover amounts using actual opex for that year and its inflation forecast for the 2019/20 regulatory year in its final decision for the 2020-25 RCP.⁷

The AER will continue to apply version 2 of the EBSS to SA Power Networks in the 2020-25 RCP and will make adjustments to remove DMIA opex and opex movements in provisions. Consistent with our Original Proposal, debt raising costs will continue to be excluded from the EBSS.⁸

8.4 Revised Proposal

SA Power Networks accepts the AER's calculation of the EBSS carryover amount for the 2015-20 RCP in its Draft Decision, and its decision to apply version 2 of the EBSS for the 2020-25 RCP. Consistent with the AER's intention in respect of its final decision for the 2020-25 RCP, we have updated the AER's calculation for actual opex for the 2018/19 regulatory year which results in a carryover gain of \$4.6 million from the application of the EBSS for the 2015-20 RCP.

Our updated calculation is shown in Table 8-5 below:

Table 8-5: Revised Proposal EBSS carry-over amount for the 2015-20 RCP

June 2020, \$ million	2020/21	2021/22	2022/23	2023/24	2024/25	Total
EBSS Carryover	12.3	-17.9	8.1	2.1	-	4.6

The turnaround in the EBSS carryover for the 2015-20 RCP from a \$30.7 million loss to a \$4.6 million gain is almost exclusively due to a lower than forecast opex outcome and the removal of opex movements in provisions for the 2018/19 regulatory year. However, that outcome is also impacted by our update of the AER's calculation for the Reserve Bank of Australia's (RBA's) inflation forecast for the 2019/20 regulatory year and our corrections of some missing formulas in the AER's EBSS calculation.

SA Power Networks' actual opex for its 2018/19 base year was around \$5 million (\$ June 2020) lower than forecast, primarily due to lower than expected guaranteed service level (GSL) inconvenience payments. GSL payments are mostly driven by unpredictable weather outcomes, which leads to a level of volatility. We used a five-year average of historical payments to calculate our forecast of GSL expenditure for the 2018/19 base year. Our actual GSL payments were lower than forecast.

Additionally, we have reduced our 2018/19 base year expenditure to remove more than \$6 million of opex movements in provisions, predominantly for increases in annual and long service leave expenses. SA Power Networks' EBSS calculation of its carryover for the 2015-20 RCP is contained in Supporting Document 8.1.

The EBSS is intrinsically linked to the forecasting approach for opex, with the improvement in our EBSS carryover partly offsetting a reduction in our base year opex for the 2020-25 RCP of around \$58 million from our Original Proposal.

Further details on the opex movements can be found in Attachment 6 – Operating expenditure.

⁷ AER, Attachment 8, page 5.

⁸ AER, Attachment 8, page 6.

Shortened Forms

2015 Determination	<i>AER distribution determination for the 2015-20 RCP</i>
AER	<i>Australian Energy Regulator</i>
Attachment 8	<i>AER, Draft Decision for SA Power Networks Distribution Determination 2020 to 2025, Attachment 8: Efficiency benefit sharing scheme</i>
DMIA	<i>Demand Management Innovation Allowance</i>
DNSP	<i>Distribution Network Service Provider</i>
Draft Decision	<i>AER, Draft Decision—SA Power Networks Distribution Determination 2020 to 2025</i>
EBSS	<i>Efficiency Benefit Sharing Scheme</i>
GSL	<i>Guaranteed Service Level</i>
opex	<i>operating expenditure</i>
Original Proposal	<i>Regulatory Proposal for the 2020-25 RCP</i>
RBA	<i>Reserve Bank of Australia</i>
RCP	<i>Regulatory Control Period</i>
Revised Proposal	<i>SA Power Networks 2020-25 Revised Regulatory Proposal</i>
RIN	<i>Regulatory Information Notice</i>