Attachment 8 - Efficiency Sharing Benefit Scheme

2025–30 Regulatory Proposal

January 2024

SA Power Networks

Empowering South Australia

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

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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 2025–30 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 20:

Document	Description
	Regulatory Proposal overview
Attachment 0	Customer and stakeholder engagement program
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	Customer Service Incentive Scheme
Attachment 12	Demand management incentives and allowance
Attachment 13	Classification of services
Attachment 14	Pass through events
Attachment 15	Alternative Control Services
Attachment 16	Negotiated services framework and criteria
Attachment 17	Connection Policy
Attachment 18	Tariff Structure Statement Part A
Attachment 18	Tariff Structure Statement Part B - Explanatory Statement
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Attachment 20	List of Proposal documentation

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1 Overview

The Efficiency Benefit Sharing Scheme (**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 distribution network prices in future regulatory control periods (**RCPs**).

SA Power Networks' carryover for the 2020–25 RCP has been calculated in accordance with version 2 of the EBSS, as applied by the Australian Energy Regulator (**AER**) in our distribution determination for the 2020–25 RCP (**2020 Determination**). Although we forecast that our opex will be below AER allowances in each regulatory year of the 2020–25 RCP, the timing of expenditure has resulted in a forecast carryover loss to the 2025–30 RCP of $23.0 million.

The EBSS is intrinsically linked to the forecasting approach for opex. As noted in **Attachment 6 – Operating Expenditure**, we have applied the base-trend-step methodology to determine our opex forecast for the 2025–30 RCP and submit that our base year expenditure is efficient. Accordingly, SA Power Networks proposes to continue to apply version 2 of the EBSS for the 2025–30 RCP.

2 Rule Requirements

The National Electricity Rules (**NER**) specifies that the building block determination must specify how any applicable EBSS is to apply to a DNSP[1].

The AER applied version 2 of the EBSS to SA Power Networks for the 2020–25 RCP as specified in the 2020 Determination. The 2020 Determination also identified certain categories of operating costs which are to be adjusted or excluded from the operation of the EBSS for the 2020–25 RCP. SA Power Networks must calculate the carryover gain or loss for the 2020–25 RCP in accordance with the EBSS and the 2020 Determination[2].

In its final Framework and Approach (**F&A**) paper for the 2025–30 RCP, the AER stated that it intends to continue to apply version 2 of the EBSS to SA Power Networks for the 2025–30 RCP if it is satisfied the scheme will fairly share efficiency gains and losses between SA Power Networks and consumers.[3] This will only occur if the opex forecast for the 2025–30 RCP is based on SA Power Networks' revealed costs. The distribution determination for SA Power Networks for the 2025–30 RCP will specify if and how the AER will apply the EBSS.[4]

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1 NER 6.3.2(a)(3).

2 AER, *Final decision: SA Power Networks determination 2020-21 to 2024-25, Attachment 8 – Efficiency benefit sharing scheme,* June 2020.

3 AER, *Final framework and approach: SA Power Networks 2025–30,* July 2023, page 20.

4 AER, *Efficiency benefit sharing scheme,* 29 November 2013.

3 Carryover amounts for the 2020–25 RCP

The increments and decrements (**carryover amounts**) to be included in the building blocks for the 2025–30 RCP are those arising from the application of the EBSS in the 2020–25 RCP.

As noted above, the EBSS which applies to SA Power Networks for the 2020–25 RCP is version 2 of the EBSS as specified in the 2020 Determination.

3.1 Actual adjustments and excluded categories of cost for the 2020–25 RCP

The EBSS allows for the exclusion of categories of operating costs that have not been derived using a single revealed year cost forecasting approach. In its 2020 Determination, the AER excluded the following categories of costs from the EBSS for the purposes of the 2020–25 RCP[5]:

- debt raising costs; and
- Demand Management Innovation Allowance (**DMIA**).

The AER excluded these categories of costs because the forecasts for these categories were not based on a single year of revealed expenditure. Debt raising costs are forecast using benchmark data, whilst the DMIA is not included in the opex forecast.

In addition to these excluded categories of operating costs, the AER determined that in accordance with the EBSS it would:

- adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the initial 2020 Determination;
- adjust actual opex to add capitalised opex that has been excluded from the regulatory asset base (**RAB**);
- exclude categories of opex not forecast using a single year revealed cost approach for the 2025–30 RCP where doing so better achieves the requirements of clause 6.5.8 of the NER; and
- adjust actual opex to reverse any movements in provisions.

No adjustment has been made to the EBSS carryover for the 2020–25 RCP for these categories of operating costs, other than for movements in provisions.

We forecast that our actual opex for the 2020–25 RCP (as calculated by making each of the above adjustments and exclusions) will be below the allowances determined by the AER for each regulatory year of the 2020–25 RCP.

Customers will benefit from this through lower opex for the 2025–30 RCP, which demonstrates that SA Power Networks is responding to the incentive based regulatory regime established by the EBSS.

3.2 Calculation of carryover amounts

The EBSS works in combination with a revealed cost base-trend-step forecasting approach to provide the same reward for an underspend and the same penalty for an overspend in each regulatory year of the relevant RCP.

Incremental efficient gains / losses for each regulatory year of the 2020–25 RCP have been calculated in accordance with the EBSS and the 2020 Determination.

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[5] AER, *Final Decision SA Power Networks determination 2020-21 to 2024-25, Attachment 8 - Efficiency benefit sharing scheme*, page 8-9.

Due to the timing of expenditure in the 2020–25 RCP, we have a forecast carryover EBSS loss of $20.4 million as shown in Table 1:

Table 1: Forecast EBSS carryover loss for the 2020–25 RCP ($ million, June 2025)

	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
EBSS Carryover	5.1	(26.7)	(26.1)	27.2	-	(20.4)

Our detailed calculation of the EBSS carryover loss for the 2020–25 RCP as set out in Table 1 is contained in Reset RIN template 7.5 in Workbook 3.

4 EBSS to apply for the 2025–30 RCP

4.1 Proposed application of EBSS

SA Power Networks proposes that the AER continue to apply version 2 of the EBSS for the 2025–30 RCP as intended by the AER in its F&A. As outlined in section 2 Rule Requirements, the AER stated that it would only take this approach if our opex forecast is based on our revealed costs under the base-trend-step methodology[6].

We have nominated the 2023/24 regulatory year as our base year[7]. The base year must reflect a suitable foundation for the forecast opex for the 2025–30 RCP. We believe that the 2023/24 regulatory year best represents this as it:

- will be the most recent regulatory year for which actual audited data will be available for the AER's final decision;
- will best reflect the future costs required to efficiently maintain and operate the distribution network; and
- incorporates efficiency gains that we will have achieved up to 30 June 2024.

As highlighted above, we forecast that our actual opex for the 2020–25 RCP will be below the allowances set by the AER for each regulatory year of the 2020–25 RCP, including our 2023/24 base year.

One of the primary techniques the AER will use to assess the efficiency of our base year will be their benchmarking of SA Power Networks against other DNSP businesses. Benchmarking is a quantitative, or data driven, approach used to measure how productive (or efficient) DNSPs are at producing outputs compared with their peers.

The AER releases an annual benchmarking report to provide consumers with useful information about the relative efficiency of networks and released its 2023 Annual Benchmarking Report in November 2023[8].

SA Power Networks has consistently been amongst the most productive DNSPs in the National Electricity Market since 2006.[9] In its 2023 Annual Benchmarking Report, the AER has provided benchmarking results based on the approach used in previous benchmarking reports as well as the results using its preferred approach to address capitalisation differences between DNSPs. When applying the historical reporting approach, SA Power Networks ranked third in terms of Opex Multilateral Partial Factor Productivity (**MPFP**), our relative performance improved under the AER's capitalisation approach, with our Opex MPFP ranking improving to second, noting we already expense all corporate overheads.

The AER has included additional category specific partial performance indicators in its 2023 Annual Benchmarking Report, which further shows that we are consistently one of the lowest cost DNSP businesses across most opex indicators. All of these factors support that our base year opex is efficient. Further information on the efficiency of our base year is contained in **Attachment 6 – Operating expenditure**.

Furthermore, the AER stated in its F&A that it would only apply the EBSS in the 2025–30 RCP if it expects it will use a revealed cost forecasting approach to forecast opex for the 2025–30 RCP[10]. SA Power Networks

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6 AER*, Final framework and approach, SA Power Networks 2025–30,* July 2023, page 20.

7 See **Attachment 6 – Operating expenditure** for full details.

8 AER*, Annual Benchmarking Report, Electricity distribution network service providers,* November 2023, includes benchmarking data up to 2021/22.

9 AER*, Annual Benchmarking Report, Electricity distribution network service providers,* November 2023, page 26.

10 AER*, Final framework and approach: SA Power Networks 2025–30,* July 2023, page 20.

anticipates that the AER will continue to use a revealed cost forecasting approach to forecast opex for the 2025–30 RCP.

Consequently, SA Power Networks proposes that continuing to apply version 2 of the EBSS for the 2025–30 RCP is appropriate. This will ensure that we are provided with a continuous incentive to pursue opex efficiency improvements that will ultimately benefit our customers. We will also continue to apply the Capital Expenditure Sharing Scheme (**CESS**) for the 2025–30 RCP, to ensure that incentives to improve opex and capital expenditure (**capex**) are balanced.

By applying the EBSS, the CESS, the Service Target Performance Incentive Scheme and the Demand Management Incentive Scheme to SA Power Networks, the incentives for capex, opex, service performance and for identifying and undertaking efficient demand management options will be balanced to promote efficient decision making in relation to expenditure and service quality.

4.2 Proposed length of carryover period

In accordance with the EBSS, SA Power Networks proposes the length of the carryover period for the 2025–30 RCP should be five years. This aligns the EBSS carryover period with the length of SA Power Networks' RCP.

4.3 Proposed adjustments and excluded cost categories

We propose that the same adjustments and cost exclusions from the EBSS that apply to the 2020–25 RCP be applied to the EBSS for the 2025–30 RCP:

- adjusting forecast opex to add (subtract) any approved revenue increments (decrements) made after the distribution determination for the 2025–30 RCP. This may include approved pass-through amounts or opex for contingent projects;
- adjusting actual opex to add capitalised opex that has been excluded from the RAB;
- excluding categories of opex not forecast using a single year revealed cost approach for the 2025–30 RCP where doing so better achieves the requirements of clause 6.5.8 of the NER, including costs associated with:
  - debt raising costs;
  - the DMIA;
  - the Small Compensation Claims Regime; and
  - Innovation Fund opex
- adjusting forecast opex and / or actual opex in the 2025–30 RCP for inflation so that the real value of the carryover amounts is consistent with the real value of the other components of SA Power Networks' regulated revenue in the 2025–30 RCP; and
- adjusting reported actual opex to reverse any movements in provisions.

In addition, we propose that the legacy metering component of standard control services will be excluded from the EBSS considerations, as per the AER's Guidance note for legacy metering services, released October 2023.

Glossary

Acronym / term	Definition
AER	Australian Energy Regulator
Capex	Capital expenditure
Carryover Amounts	Increments and decrements
CESS	Capital Expenditure Sharing Scheme
DMIA	Demand Management Innovation Allowance
DNSP	Distribution Network Service Provider
EBSS	Efficiency Benefit Sharing Scheme
F&A	Framework and Approach
MPFP	Multilateral Partial Factor Productivity
NER	National Electricity Rules
Opex	Operating expenditure
RAB	Regulatory Asset Base
RCP	Regulatory Control Period
2020 Determination	2020–25 Regulatory Control Period