

# Draft Decision

## SA Power Networks Electricity Distribution Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

### Attachment 8 Efficiency benefit sharing scheme

September 2024

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## 8 Efficiency benefit sharing scheme

The efficiency benefit sharing scheme (EBSS) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in operating expenditure (opex), and provide for a fair sharing of these between service providers and consumers.<sup>1</sup> Consumers benefit from improved efficiencies through lower regulated prices.

This attachment sets out our draft decision on the EBSS carryover amounts SA Power Networks accrued over the 2020–25 regulatory control period, and how we will apply the EBSS over the 2025–30 regulatory control period.

### 8.1 Draft decision

Our draft decision is to include EBSS carryover amounts totalling  $-\$41.3$  million<sup>2</sup>, from the application of the EBSS in the 2020–2025 regulatory control period.<sup>3</sup> This represents a  $\$20.9$  million difference from SA Power Networks' proposed carryover amount of  $-\$20.4$  million.<sup>4</sup> This difference reflects two updates we have made. In particular, in our draft decision we have:

- updated SA Power Networks' 2020–25 approved total opex allowance to reflect the revocation and substitution determination we made (for the minor cable and conductor repairs error) and for the 2022–23 River Murray flood event cost pass through.<sup>5</sup>
- updated actual and forecast inflation for 2023–24 and 2024–25 respectively.<sup>6</sup>

These updates are further discussed in section 8.4.1.

In our final decision, we will also update our EBSS carryover calculations to reflect actual opex for 2023–24 and for the most recent inflation data. Our draft decision is based on the estimate of base year opex included in SA Power Networks' initial proposal because actual data for 2023–24 was not available at the time the proposal was submitted.

We set out our draft decision on the EBSS carryover amounts SA Power Networks accrued during the 2020–25 regulatory control period in Table 8.1, along with SA Power Networks' proposal and the difference.

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<sup>1</sup> AER, *AER explanatory statement – efficiency benefit sharing scheme – November 2013*, November 2013, p. 5.

<sup>2</sup> All dollars in this document are in  $\$2024-25$  terms unless otherwise stated.

<sup>3</sup> NER, cl. 6.4.3(a)(5).

<sup>4</sup> SA Power Networks, *SAPN – Attachment 8 – Efficiency benefit sharing scheme*, January 2024, p. 8.

<sup>5</sup> AER, *Revocation and substitution of SA Power Networks' 2020–25 distribution determination*, March 2024; AER, *AER Determination – Letter to SA Power Networks – 2022–23 River Murray flood*, March 2024.

<sup>6</sup> Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia, released on 31 July 2024* (accessed on 31 July 2024: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>); Reserve Bank of Australia (RBA), *Statement on monetary policy, August 2024*, (accessed on 6 August 2024: <https://www.rba.gov.au/publications/smp/2024/aug/outlook.html#3-5-detailed-forecast-information>).

**Table 8.1 Draft decision on carry over amounts (\$million, 2024–25)**

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
SA Power Networks' proposal	5.1	–26.7	–26.1	27.2	–	–20.4
AER draft decision	–6.5	–25.9	–25.2	16.3	–	–41.3
<b>Difference</b>	<b>–11.6</b>	<b>0.8</b>	<b>0.8</b>	<b>–10.9</b>	<b>–</b>	<b>–20.9</b>

Source: SA Power Networks, *SAPN – 1.1 – Post Tax Revenue Model*, January 2024; AER, *SAPN distribution determination 2020–25 – PTRM – 2024–25 RoD update*, March 2024; AER analysis.

Note: Numbers may not add up to total due to rounding.

Our draft decision is also to continue to apply version 2 of the EBSS to SA Power Networks in the 2025–30 regulatory control period.<sup>7</sup> It will apply to the opex associated with the main standard control services, as discussed in Attachment 6, but not the metering standard control services opex, as discussed in Attachment 20.

Consistent with SA Power Networks' proposal, we will exclude the following cost categories from the scheme:

- debt raising costs
- any other costs treated as category specific forecast such as any innovation fund opex that is included in the forecast and any opex for the Small Compensations Claims Scheme (SCCS)
- demand management innovation allowance mechanism
- legacy metering component of standard control services.

We will also make other adjustments as permitted by the EBSS, such as removing movement in provisions related to opex, and adding approved opex for pass throughs to forecast opex.

We discuss the reasons for our decision on applying the EBSS in the 2025–30 regulatory control period in section 8.4.2.

## 8.2 SA Power Networks' proposal

### 8.2.1 Carryover amounts from the 2020-25 control period

SA Power Networks proposed we include EBSS carryover amounts totalling –\$20.4 million in its revenue for the 2025–30 regulatory control period from the application of the EBSS in the 2020–25 regulatory control period.<sup>8</sup>

SA Power Networks excluded debt raising costs in calculating its EBSS carryover amounts.

<sup>7</sup> NER, cl. 6.12.1(9); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

<sup>8</sup> SA Power Networks, *SAPN – RIN3 – Workbook 3 – EBSS*, January 2024.

SA Power Networks also adjusted its actual opex to reverse any movement in provisions for the period 2018–19 to 2022–23 for the purpose of calculating the EBSS.

## 8.2.2 Application in the 2025-30 control period

SA Power Networks proposed we apply version 2 of the EBSS in the 2025–30 regulatory control period.<sup>9</sup> SA Power Networks supported the adjustments we apply in version 2 of the EBSS, and additionally proposed we exclude the following cost categories in calculating its EBSS carryover amounts:<sup>10</sup>

- debt raising costs
- demand management innovation allowance mechanism
- the Small Compensations Claims Scheme (SCCS)
- innovation fund opex
- legacy metering component of standard control services

## 8.2.3 Stakeholder submissions

We did not receive any stakeholder submission in relation to SA Power Networks' EBSS carryovers or application of the scheme in the 2025–30 period.

## 8.3 Assessment approach

Under the National Electricity Rules (NER), we must determine:

- the revenue increments or decrements for each year of the 2025–30 regulatory control period arising from the application of the EBSS during the 2020–25 regulatory control period.<sup>11</sup>
- how the EBSS will apply to SA Power Networks in the 2025–30 regulatory control period.<sup>12</sup>

The EBSS must provide for a fair sharing of opex efficiency gains and efficiency losses between SA Power Networks and its network users.<sup>13</sup> We must also have regard to the following matters when implementing the EBSS:<sup>14</sup>

- the need to provide SA Power Networks with a continuous incentive to reduce opex
- the desirability of both rewarding SA Power Networks for efficiency gains and penalising it for efficiency losses
- any incentives that SA Power Networks may have to inappropriately capitalise expenditure

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<sup>9</sup> SA Power Networks, *SAPN – Attachment 8 – Efficiency benefit sharing scheme*, January 2024, p. 9.

<sup>10</sup> SA Power Networks, *SAPN – Attachment 8 – Efficiency benefit sharing scheme*, January 2024, p. 10.

<sup>11</sup> NER, cl. 6.4.3(a)(5).

<sup>12</sup> NER, cl. 6.3.2(a)(3); cl. 6.12.1(9).

<sup>13</sup> NER, cl. 6.5.8(a).

<sup>14</sup> NER, cl. 6.5.8(c).

- the possible effects of the scheme on incentives for the implementation of non-network alternatives.

### 8.3.1 Interrelationships

The EBSS is closely linked to our revealed cost approach to forecasting opex. When we assess or develop the opex forecast, the NER requires us to have regard to whether the opex forecast is consistent with any incentive schemes.<sup>15</sup>

Our opex forecasting method typically relies on using the ‘revealed costs’ of the service provider in a chosen base year to develop a total opex forecast, if the chosen base year opex is not considered to be ‘materially inefficient’. Under this approach, a service provider would have an incentive to spend more opex in the expected base year. Also, a service provider has less incentive to reduce opex towards the end of the regulatory control period, where the benefit of any efficiency gains is retained for less time.

The application of the EBSS therefore serves two important functions:

1. it removes the incentive for a service provider to inflate opex in the expected base year in order to gain a higher opex forecast for the next regulatory control period
2. it provides a continuous incentive for a service provider to pursue efficiency improvements across the regulatory control period.

The EBSS does this by allowing a service provider to retain efficiency gains (or losses) for a total of 6 years, regardless of the year in which the service provider makes them. Where we do not propose to rely on the single year revealed costs of a service provider in forecasting opex, this has consequences for the service provider's incentives and our decision on how we apply the EBSS. When a business makes an incremental efficiency gain, it receives a reward through the EBSS, and consumers benefit through a lower revealed cost forecast for the subsequent regulatory control period.

This is how efficiency improvements are shared between consumers and the business. If we subject costs to the EBSS that are not forecast using a revealed cost approach, a business would in theory receive a reward for efficiency gains through the EBSS (at a cost to consumers), but consumers would not benefit through a lower revealed cost forecast in the subsequent regulatory control period.

Therefore, we typically exclude costs that we do not forecast using a single year revealed cost forecasting approach.

For these reasons, our decision on how we will apply the EBSS to SA Power Networks has a strong interrelationship with our decision on its opex (see Attachment 6). We have careful regard to the effect of our EBSS decision when making our opex decision, and our EBSS decision is made largely in consequence of (and takes careful account of) our past and current decisions on SA Power Networks’ opex.

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<sup>15</sup> NER, cl. 6.5.6(e)(8). Further, we must specify and have regard to the relationship between the constituent components of our overall decision: NEL, s 16(1)(c).

## 8.4 Reasons for draft decision

This section provides the reasons for our draft decision on the carryover amounts that arise from applying the EBSS during the 2020–25 regulatory control period, and how we will apply the EBSS in the 2025–30 regulatory control period.

### 8.4.1 Carryover amounts from the 2020-25 control period

Our draft decision is to include EBSS carryover amounts totalling –\$41.3 million from the application of the EBSS in the 2020–2025 regulatory control period. This represents a \$20.9 million difference from SA Power Networks’ proposed carryover amount –\$20.4 million. This difference reflects two adjustments we made to correctly apply the scheme, as summarised in section 8.1, and discussed below.

We consider that the EBSS carryover amounts we have calculated provide for a fair sharing of efficiency gains and losses between SA Power Networks and its network users. Over the 2020–25 regulatory control period it both rewards SA Power Networks for any efficiency gains it has made and penalises it for any efficiency losses. Further, we consider that the benefit to networks users, through lower forecast opex, is sufficient to warrant the EBSS carryover amounts we have determined.

In our final decision, we will update our EBSS carryover calculations to reflect actual opex for 2023–24. Our draft decision is based on an estimate because actual data for 2023–24 is not yet available. We will also update inflation.

#### 8.4.1.1 Revocation and substitution – cable and conductor minor repairs error and 2022-23 River Murray Flood event cost pass through

In our draft decision we have used the latest approved SA Power Networks 2020–25 total opex allowance in our EBSS calculations. This reflects both the revocation and substitution and 2022-23 River Murray Flood event cost pass through determinations.<sup>16</sup> Both determinations had not been made when SA Power Networks submitted its proposal. Table 8.2 shows the revisions to our approved SA Power Networks 2020-25 total opex allowance post SA Power Networks’ submission.

We consider the revised calculations to determine the EBSS under the revised approved total opex allowance are mechanical in nature. We have provided SA Power Networks with these revised calculations, and our updated EBSS carryover amount, and it agreed with our approach and the updated penalty.<sup>17</sup>

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<sup>16</sup> AER, *Revocation and substitution of SA Power Networks’ 2020–25 distribution determination*, March 2024; AER, *AER Determination – Letter to SA Power Networks – 2022–23 River Murray flood*, March 2024.

<sup>17</sup> SA Power Networks, *Response to information request #008 – AER Information request #008 -Opex - Insurance premium & EV step changes, EBSS calculations and Forecasted ratcheted maximum demand*, 3 May 2024.



**Table 8.2 SA Power Networks 2020-25 total opex allowance (\$million, 2019–20)**

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
SA Power Networks total forecast opex allowance	287.9	291.0	294.4	296.9	299.3	1,469.6
Revocation and substitution determination	–9.9	–9.9	–9.9	–9.9	–9.9	–49.7
2022-23 River Murray Flood event			9.4	0.4		9.7
<b>AER total opex allowance</b>	<b>277.9</b>	<b>281.1</b>	<b>293.8</b>	<b>287.3</b>	<b>289.4</b>	<b>1,429.6</b>

Source: AER, *Revocation and substitution of SA Power Networks’ 2020–25 distribution determination*, March 2024; AER, *SA Power Networks – Cost pass through – 2022–23 River Murray flood event*, March 2024; AER, *SAPN distribution determination 2020–25 – PTRM – 2023–24 RoD update*, March 2023.

Note: Numbers may not add up to total due to rounding.

In terms of the two determinations that form the basis for the changes to the SA Power Networks’ approved total opex allowance:

- On 25 March 2024, we revoked and substituted SA Power Networks’ electricity distribution determination for the 2020–25 regulatory control period to correct an error SA Power Networks identified in our 2020–25 final determination.<sup>18</sup>

The error related to an increase to its opex forecast which was not required. Specifically, a step change was approved in the determination for expensing previously capitalised cable and conductor minor repairs. However, after further review SA Power Networks identified that these costs were already accounted for in base opex and did not need to be added. The revocation and substitution determination removed \$49.7 million (\$2019–20) from the approved forecast opex for the 2020–25 regulatory control period, being the amount of the cable and conductor minor repairs step change.

- On 22 March 2024, we approved SA Power Networks 2022–23 River Murray Flood event cost pass through (\$9.7 million opex, (\$2019–20)) for the recovery of incremental costs arising from the 2022–23 flood event.<sup>19</sup>

#### 8.4.1.2 Inflation

Consistent with our standard approach, and opex forecast, we used unlagged inflation to convert opex amounts to 2024–25 real terms. This approach is also consistent with the approach SA Power Networks adopted in its proposal.<sup>20</sup>

In our draft decision we have used updated consumer price index (CPI) values compared to those SA Power Networks used in its proposal. For 2023–24, we used the actual headline June quarter 2024 CPI figure published by the Australian Bureau of Statistics, which was

<sup>18</sup> AER, *Revocation and substitution of SA Power Networks’ 2020–25 distribution determination*, March 2024.

<sup>19</sup> AER, *AER Determination – Letter to SA Power Networks – 2022–23 River Murray flood*, March 2024; AER analysis.

<sup>20</sup> SA Power Networks, *SAPN – RIN3 – Workbook 3 – EBSS*, January 2024.

released after SA Power Networks submitted its proposal.<sup>21</sup> For 2024–25 we used the inflation forecast for the year to June 2025 in the Reserve Bank of Australia's August 2024 *Statement on monetary policy*, which was also published after SA Power Networks submitted its proposal.<sup>22</sup>

## 8.4.2 Application in the 2025-30 control period

Our draft decision is to continue to apply version 2 of the EBSS to SA Power Networks during the 2025–30 regulatory control period. It will apply to the opex associated with the main standard control services, as discussed in Attachment 6, but not the metering standard control services opex, as discussed in Attachment 20. We consider applying the scheme will benefit the long-term interests of electricity consumers by providing a continuous incentive for SA Power Networks to reduce its opex. Provided we forecast SA Power Networks' future opex using its revealed costs in the 2025–30 regulatory control period, any efficiency gains (losses) that SA Power Networks achieves will lead to lower (higher) future opex forecasts, and thus lower (higher) network tariffs.

Version 2 of the EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts.<sup>23</sup> We provide details on these below.

### 8.4.2.1 Adjustments to forecast or actual opex when calculating carryover amounts

The EBSS allows us to exclude categories of costs that we do not forecast using a single year revealed cost forecasting approach in the following control period. We do this to fairly share efficiency gains and losses. For instance, where a service provider achieves efficiency improvements, it receives a benefit through the EBSS and consumers receive a benefit through lower forecast opex in the next regulatory control period. This is the way consumers and the service provider share in the benefits of an efficiency improvement.

If we do not use a single year revealed cost forecasting approach, we may not pass the benefits of these revealed efficiency gains to consumers. It follows that consumers should not pay for EBSS rewards where they do not receive the benefits of a lower opex forecast.

We do not forecast debt raising costs using a single year revealed cost forecasting approach. Instead, we provide a benchmark forecast. Accordingly, we have excluded these costs from the EBSS for the 2025–30 regulatory control period since any achieved efficiency gains (or losses) would not be passed on to network users.

We will also exclude projects under the Demand Management Innovation Allowance Mechanism, because including them in the EBSS would distort the incentives provided under these schemes and allowances.

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<sup>21</sup> Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia, released on 31 July 2024* (accessed on 31 July 2024: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>).

<sup>22</sup> Reserve Bank of Australia (RBA), *Statement on monetary policy, August 2024*, (accessed on 6 August 2024: <https://www.rba.gov.au/publications/smp/2024/aug/outlook.html#3-5-detailed-forecast-information>).

<sup>23</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

Similarly, we note SA Power Networks’ proposed that the opex component of its innovation fund and SCCS expenditure be excluded from the EBSS for the 2025–30 regulatory control period.<sup>24</sup> The proposed innovation fund opex was not forecast on a revealed cost basis, and is unlikely to be forecast on that basis in future given the nature of these costs. We therefore agree that any network innovation fund opex should be excluded from application of the EBSS for the 2025–30 regulatory control period. Our draft decision for SA Power Networks’ proposed SCCS opex, set out in Attachment 6 Operating Expenditure, considers it highly likely that this scheme will be treated as a Jurisdictional Scheme.<sup>25</sup> As a Jurisdictional Scheme, the forecast costs of the SCCS are not included as a category specific forecast in total opex, but recovered via an annual tariff true-up. On this basis the SCCS costs will not be included as opex in the 2025–30 regulatory control period. We therefore consider there is no need for these to be excluded from the application of the EBSS for the 2025–30 regulatory control period.

Our guidance on legacy metering services considers that Incentive schemes will only relate to the main component of standard control services and be applied to the main standard control services revenue where relevant. Therefore, the legacy metering component of standard control services will be excluded from EBSS calculations.

In addition to the excluded cost categories discussed above, and consistent with version 2 of the EBSS, we will also make the following adjustments when we calculate the EBSS carryover amounts accrued during the 2025–30 regulatory control period:

- adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the initial regulatory determination, such as approved pass through amounts or opex for contingent projects.
- adjust actual opex to add capitalised opex that has been excluded from the regulatory asset base.<sup>26</sup>
- adjust forecast opex and actual opex for inflation.<sup>27</sup>
- adjust actual opex to remove any movements in provisions.
- adjust opex for any services that will not be classified as standard control services in the 2030–35 regulatory control period, to the extent these costs are not forecast using a single year revealed cost approach and excluding these costs better achieves the requirements of clauses 6.5.8 of the NER.<sup>28</sup>

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<sup>24</sup> SA Power Networks, *SAPN – Attachment 8 – Efficiency benefit sharing scheme*, January 2024, p. 10.

<sup>25</sup> AER, *AER – Draft Decision Attachment 6 – Operating Expenditure – SA Power Networks – 2025–30 Distribution revenue proposal*, September 2024, pp. 54-55.

<sup>26</sup> Clause 6.5.8(c)(4) of the NER requires us to have regard to any incentives the service provider may have to capitalise expenditure.

<sup>27</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013, p. 7.

<sup>28</sup> AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013, pp. 14-16.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CPI	consumer price index
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
NEL	national electricity law
NER or the rules	national electricity rules
opex	operating expenditure
RAB	regulatory asset base
RIN	regulatory information notice
SCCS	small claims compensation scheme

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