Final Decision

Energex Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 8
Efficiency benefit sharing scheme

April 2025

AUSTRALIAN ENERGY REGULATOR

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1	30 April 2025	10

List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) final decision on the distribution determination that will apply to Energex for the 2025–30 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

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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 the benefits of these efficiencies between network service providers and consumers.[1] Consumers benefit from improved efficiencies through lower regulated prices.

This attachment sets out our final decision and reasons on the EBSS carryover amounts Energex accrued over the 2020–25 regulatory control period (2020–25 period), and how we will apply the EBSS over the 2025–30 regulatory control period (2025–30 period).

8.1 Final decision

Our final decision is to include EBSS carryover amounts (penalties) totalling –$93.3 million ($2024–25),[2] from the application of the EBSS in the 2020–25 period.[3] Our final decision is $93.3 million less than Energex's revised proposal, which was to not apply its calculated EBSS penalties of –$337.8 million.[4] The difference is because we:

- used 2022–23 as the base year to calculate the EBSS carryover amounts Energex accrued from for the application of the EBSS in the 2020–25 period. This is the primary driver of the difference, and contrasts to Energex's revised proposal, which used 2023–24 as the base year for both its total opex forecast and EBSS penalty calculations.[5] Our reasons for choosing 2022–23 as the base year are outlined in Attachment 6 Operating Expenditure.
- included approved forecasts for Energex's 2023–24 storm cost pass through
- updated forecast inflation
- applied the EBSS penalties Energex has accrued in the 2020–25 period.

We set out our final decision on the EBSS carryover amounts Energex accrued during the 2020–25 period in Table 8.1, along with Energex's proposal and the difference.

1 AER, *Explanatory statement – efficiency benefit sharing scheme*, November 2013, p. 6.

2 All dollars referenced in this attachment are on a $2024–25 basis.

3 National Electricity Rules (NER), cl. 6.4.3(a)(5).

4 Energex's revised proposal attachment Energex*, 7.03 – EBSS Model*, November 2024 included EBSS carryovers of –$402.5 million. In response to an information request, Energex notified us of an error in its revised proposal carryover calculations, and updated its EBSS carryover amount to –$337.8 million.

5 Energex, *6.01 – Model – SCS AER Opex model*, November 2024; Energex, *7.03 – EBSS Model*, November 2024.

Table 8.1 Final decision on carryover amounts ($million, 2024–25)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Energex's proposal	–	–	–	–	–	**–**
AER final decision	–71.6	–35.0	–26.9	–	40.2	**–93.3**
Difference	–71.6	–35.0	–26.9	–	40.2	**–93.3**

Source: Energex, *7.03 – EBSS Model*, November 2024; AER analysis.
Note: Numbers may not add up due to rounding. '–' represents zero.

We will continue to apply version 2 of the EBSS to Energex in the 2025–30 period.[6] This contrasts with Energex's revised proposal, which was to not apply the EBSS in the 2025–30 period.[7] In applying the scheme, we will continue to exclude debt raising costs because we have forecast them on a category specific basis. We will also make other adjustments as permitted by the EBSS, such as removing movements in provisions.

8.2 Energex's revised proposal

8.2.1 Carryover amounts accrued during the 2020–25 period

Energex's revised proposal calculated EBSS carryover amounts totalling –$402.5 million from the application of the EBSS in the 2020–25 period.[8] Energex calculated this carryover amount using 2023–24 as the base year.[9] In response to an information request, Energex updated its revised EBSS carryover amount to –$337.8 million.[10] Energex further proposed that we not apply these EBSS penalties to its revenues for the 2025–30 period.[11] This was because Energex considered that if the EBSS penalties were applied, in addition to the 2023–24 base year efficiency adjustment it included in its total forecast opex proposal, it would incur a greater share of the losses than initially intended under the EBSS.[12] Energex further considered that applying its EBSS penalties would not be consistent with the objective of fairly sharing efficiency losses under the NER, or previous AER determinations, including the 2024–29 Evoenergy draft decision.[13] Energex also noted that it had incurred one-off storm costs in its proposed 2023–24 base year. However, it noted that while it proposed to remove these costs from its base year in its revised proposal for total forecast opex, there was no adjustment for these costs in the EBSS model, and this would result in it incurring an unfair EBSS penalty for this expenditure over which it had no control.[14]

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6 AER, *efficiency benefit sharing scheme,* November 2013.

7 Energex's revised proposal Energex, *7.03 – EBSS Model* – November 2024 included EBSS carryovers of –$402.5 million. In response to an AER information request, Energex revised its EBSS carry over amount to –$337.8 million.

8 Energex, *7.03 – EBSS Model*, November 2024.

9 Energex, *7.03 – EBSS Model*, November 2024.

10 Energex, response *to AER information request IR*#065, 28 January 2025.

11 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 80.

12 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 81.

13 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 81.

14 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 80.

Energex's revised proposal carryover amount of –$337.8 million is significantly higher than the amount it included in its initial proposal of –$121.8 million.[15] The increase is due to Energex's actual opex in the base year of 2023–24 being significantly higher than the estimate it used in its initial proposal.[16] This is because the EBSS penalties are calculated taking account of opex in the base year and its relationship to opex in the final year of the regulatory period.

8.2.2 Application in the 2025–30 period

Energex proposed that its opex not be subject to the EBSS in the 2025–30 period. Energex stated that this was because it considered there was uncertainty regarding whether revealed opex will be used to forecast its total opex requirement for the 2030–35 regulatory control period.[17]

8.2.3 Stakeholder submissions

We received submissions from the AER Consumer Challenge Panel Sub-Panel 30 (CCP30) and Energy Queensland's Reset Reference Group (RRG).

The CCP30 considered that Energex did not consult adequately or transparently on its decision to reverse its positions on the EBSS. The CCP asked that we consider Energex's revised proposal (to not apply the EBSS penalties accrued in the current 2020–25 period, and to suspend the scheme in the 2025–30 period) very closely, given this lack of consultation. The CCP30 also highlighted Energex's past performance in overspending relative to our approved forecasts, and the risk that Energex will not be able to deliver the efficiency savings it forecasts it will achieve over the 2025–30 period.[18] The CCP30 further noted that state-owned utilities 'cloud the intent and effectiveness of the EBSS', and submitted that Energex should 'bear the full penalties of the regulatory process designed to encourage efficient delivery of distribution services'.[19]

The RRG noted that while Energex's proposal to suspend the EBSS is significant, they do not have the capacity or tools to analyse the impacts in detail. They asked the AER to ensure that Energex's EBSS proposal is consistent with the opex criteria, and that customers are not bearing additional costs that are not prudent and efficient. [20]

8.3 Assessment approach

Under the National Electricity Rules we must determine:

- the revenue increments or decrements for each year of the 2025–30 period arising from the application of the EBSS during the 2020–25 period[21]

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15 Energex, *RIN.03 – SCS EBSS* model, January 2024; Energex, *6.01 – Model – SCS Opex model*, November 2024.

16 Energex, *RIN.03 – SCS EBSS* model, January 2024.

17 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 81.

18 CCP30, *Submission on Energex's revised proposal and draft decision 2025–30,* January 2025, pp. 18–19.

19 CCP30, *Submission on Energex's revised proposal and draft decision 2025–30,* January 2025, p. 21.

20 RRG, *Submission on Energex's revised proposal and draft decision 2025–30,* January 2025, p. 5.

21 NER, cl. 6.4.3(a)(5).

- how the EBSS will apply to Energex in the 2025–30 period.[22]

The EBSS must provide for a fair sharing of opex efficiency gains and efficiency losses between Energex and network users.[23] We must also have regard to the following matters when implementing the EBSS:[24]

- the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme
- the need to provide Energex with a continuous incentive to reduce opex
- the desirability of both rewarding Energex for efficiency gains and penalising it for efficiency losses
- any incentives that Energex may have to inappropriately capitalise expenditure
- 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 our opex forecast, the NER require us to have regard to whether the opex forecast is consistent with any incentive schemes.[25]

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

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22 NER, cl. 6.3.2(a)(3); cl. 6.12.1(9).

23 NER, cl. 6.5.8(a).

24 NER, cl.6.5.8(c).

25 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: National Electricity Law (NEL), s. 16(1)(c).

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 Energex has a strong interrelationship with our decision on its opex (see Attachment 6). We have 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 account of) our past and current decisions on Energex's opex.

8.4 Reasons for final decision

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

8.4.1 Carryover amounts from the 2020–25 period

Our final decision is to include EBSS carryover amounts totalling –$93.3 million from the application of the EBSS in the 2020–25 period.[26] Our final decision is $93.3 million less than Energex's revised proposal, which was to not apply its calculated EBSS penalties of –$337.8 million.[27] The difference is because we:

- used 2022–23 as the base year to calculate the EBSS carryover amounts it accrued from for the application of the EBSS in the 2020–25 period. This is the primary driver of the difference and contrasts to Energex's revised proposal, which used 2023–24 as the base year for its total opex forecast and EBSS carryovers calculation.[28] Our reasons for choosing 2022–23 as the base year are outlined in Attachment 6 Operating Expenditure.
- included approved forecasts for Energex's 2023–24 storm cost pass through
- updated forecast inflation
- applied the EBSS penalties it has accrued in the 2020-25 period..

We discuss each of these below.

We consider that the EBSS carryover amounts we have calculated provide for a fair sharing of efficiency gains and losses between Energex and its network users. It provides rewards to Energex for any efficiency gains it has made, and penalises Energex for any efficiency losses.

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26 NER, cl. 6.4.3(a)(5).

27 Energex's revised proposal Energex, *7.03 – EBSS Model* – November 2024 included EBSS carryovers of –$402.5 million. In response to an AER information request, Energex revised its EBSS carry over amount to –$337.8 million.

28 Energex, *6.01 – Model – SCS Opex model*, November 2024; Energex, *7.03 – EBSS Model*, November 2024.

8.4.1.1 Calculating EBSS carryovers using the 2022–23 base year

Consistent with our final decision for total forecast opex for the 2025–30 period, we have used 2022–23 as the base year to calculate Energex's EBSS carryover amounts, rather than 2023–24 as proposed by Energex. We provide the reasons for substituting 2022–23 as the base year in Attachment 6 Operating Expenditure.[29]

The EBSS requires we use the same estimate of final year opex, which is a function of the base year, to calculate both the EBSS carryover amounts and to estimate forecast total opex. Using 2022–23 as the base year results in a lower estimate of final year opex and thus lower EBSS penalties than if we had used 2023–24 as the base year.

8.4.1.2 2023–24 storm cost pass through

Energex submitted a pass through application on 28 October 2024 for costs it incurred during the 2023–24 summer severe storms experienced in South East Queensland.[30] We approved costs related to this pass through event in our April 2025 Energex cost pass through determination. Consistent with our standard approach, we have included $8.6 million for the approved pass through amounts in forecast opex for 2023–24 in our calculation of EBSS carryovers, as required by the EBSS.[31] This ensures that Energex is not penalised for costs it incurred in responding to this pass through event.

8.4.1.3 Inflation

Consistent with our standard approach and our opex forecast, we used unlagged inflation to convert amounts to 2024–25 dollars.[32] To do this, we used the latest inflation forecast value published in the Reserve Bank of Australia's February 2025 *Statement on monetary policy*.[33]

8.4.1.4 Application of the EBSS penalties

As noted in Section 8.2.1, Energex, in its revised proposal, proposed that we not apply the EBSS penalties it accrued over the 2020–25 period to its revenues for the 2025–30 period.[34] Energex considered that applying the EBSS penalties, in addition to the 2023–24 base year efficiency adjustment it included in its revised proposal of total forecast opex, would result in Energex incurring a greater share of the losses than intended under the EBSS.[35] Energex also stated that applying the EBSS penalties would unfairly penalise it for one-off storm costs it incurred in the 2023–24 base year.[36]

The EBSS is designed to work alongside a single year revealed cost opex forecasting approach to provide a continuous incentive to reduce opex. If we apply an efficiency adjustment to base year opex, this can alter the sharing of efficiency gains and losses. However, for the reasons set out in Attachment 6 Operating Expenditure, we have used

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29 AER, *Final decision, Attachment 6 – Operating expenditure – Energex – 2025–30 Distribution revenue proposal*, April 2025.

30 Energex, *Cost pass through application – South East Queensland* storms, October 2024.

31 AER, *Efficiency benefit sharing scheme*, November 2013, p. 8.

32 This ensures Energex is not accruing carryovers that are not being passed on to customers.

33 RBA, *Statement on monetary policy*, February 2025.

34 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 80.

35 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 81.

36 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 80.

Energex's actual 2022–23 opex as the base year to forecast our alternative estimate of total forecast opex for the 2025–30 period, and we have not made an efficiency adjustment. Because we have relied on Energex's revealed costs, we are satisfied that applying the EBSS penalties Energex has accrued will:

- provide for a fair sharing of efficiency gains and losses between Energex and its network users[37]
- ensure that benefits to network users likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme[38]
- provide Energex with a continuous incentive, so far as is consistent with economic efficiency, to reduce opex[39]
- both reward Energex for efficiency gains and penalise it for efficiency losses.[40]

We also note Energex's concerns on including carryover penalties in conjunctions with the one-off storm costs adjustment it made to its proposed 2023–24 base year.[41] While we have not used 2023–24 as the base year to forecast opex, we have also approved additional opex for 2022–23 related to the February-March 2022 Flood Event cost pass through of $0.3 million.[42] The EBSS requires that we add approved opex for cost pass through events to the forecast opex amount that we use to calculate EBSS carryovers.[43] This ensures that Energex is not penalised for the efficient opex it incurred related to approved pass through events. As noted in section 8.4.1.2, Energex applied for a cost pass though for the 2023–24 summer storms in Southeast Queensland. We have now assessed this application and approved an efficient amount of opex for the pass through event. We have added the approved opex for the cost pass though event to the forecast opex amounts we use to calculate EBSS carryovers.

8.4.2 Application in the 2025–30 period

Our final decision is to continue to apply version 2 of the EBSS to Energex in the 2025–30 period. We consider applying the scheme will benefit the long-term interests of electricity consumers by providing a continuous incentive for Energex to reduce its opex. Provided we forecast Energex 's future opex using its revealed costs in the 2025–30 period, any efficiency gains that Energex achieves will lead to lower future opex forecasts, and thus lower network tariffs.

Our final decision is consistent with both our draft decision and Energex's initial proposal to apply the EBSS in the 2025–30 period.[44] However, we note this is different to Energex's revised proposal to not apply the EBSS in the 2025–30 period. As we discuss in

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37 NER, cl. 6.5.8(a).

38 NER, cl. 6.5.8(c)(1).

39 NER, cl. 6.5.8(c)(2).

40 NER, cl. 6.5.8(c)(3).

41 Energex, *2025–30 Revised regulatory proposal*, November 2024, p. 80.

42 AER, *Determination – Energex – 2022 February-March flooding cost pass through*, 30 March 2023.

43 AER, *Efficiency benefit sharing scheme*, November 2013, p. 8.

44 AER, *Draft decision, Attachment 8 – Efficiency benefit sharing scheme – Energex – 2025–30 Distribution revenue* proposal, September 2024, p. 6; Energex, *2025–30 Regulatory Proposal*, January 2024, p. 148.

Attachment 6, we have used Energex's revealed opex for 2022–23 to forecast our alternative estimate of total opex and have not applied an efficiency adjustment.[45] Therefore, and consistent with our standard approach, we have applied the EBSS in the forecast 2025–30 period. As noted above, this is because we consider applying the scheme will benefit the long-term interests of electricity consumers.

Version 2 of the EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts.[46] 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 will exclude these costs from the EBSS for the 2025–30 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 the scheme.

In addition to the excluded cost categories discussed above, we will also make the following adjustments when we calculate the EBSS carryover amounts accrued during the 2025–30 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 reported actual opex for the 2025–30 period to reverse any movements in provisions
- adjust reported opex to add capitalised opex that has been excluded from the regulatory asset base

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45 AER, *Final decision, Attachment 6 – Operating expenditure – Energex – 2025–30 Distribution revenue proposal*, April 2025, section 6.4.1.1.

46 AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

- adjust forecast opex and actual opex for inflation[47]
- 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 clause 6.5.8 of the NER .[48]

47 AER, *Efficiency Benefit Sharing Scheme*, November 2013, p. 8.

48 AER, *explanatory statement – Efficiency Benefit Sharing Scheme*, November, pp. 15–16.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
CCP30	Consumer Challenge Panel sub-Panel 30
EBSS	Efficiency benefit sharing scheme
NER	National Electricity Rules
opex	Operating expenditure
RRG	Energy Queensland reset reference group