

Final Decision

**AusNet Services Transmission
Determination 2022 to 2027**

Attachment 8

Efficiency benefit sharing scheme

January 2022

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Note

This attachment forms part of the AER's final decision on AusNet Services' 2022–27 transmission determination. 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. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

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 12 – Pricing methodology

Attachment 13 – Pass through events

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8 Efficiency benefit sharing scheme

The efficiency benefit sharing scheme (EBSS) is intended to provide a continuous incentive for transmission businesses to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of these between businesses and consumers. Consumers benefit from improved efficiencies through lower regulated prices.

This attachment sets out our final decision and reasons on the EBSS carryover amounts AusNet Services has accrued over the 2017–22 regulatory control period. It also sets out how we will apply the EBSS over the 2022–27 regulatory control period.

8.1 Final decision

Our final decision is to include EBSS carryover amounts totalling \$64.3 million (\$2021–22) from the application of the EBSS in the 2017–22 regulatory control period.¹ This is \$0.6 million (\$2021–22) higher than AusNet Services' revised proposal of \$63.6 million (\$2021–22).² This difference is because we used an updated inflation forecast for the year to March 2022 to convert amounts into 2021–22 dollars.

We have set out our final decision on AusNet Services' EBSS carryover amounts in the 2022–27 regulatory control period in Table 8.1.

Table 8.1 Final decision on carryover amounts (\$million, 2021–22)

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
AusNet Services' revised proposal	24.3	14.6	13.1	11.5	–	63.6
AER final decision	24.6	14.8	13.3	11.7	–	64.3
Difference	0.2	0.1	0.1	0.1	–	0.6

Source: AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 152; AER analysis.

Note: Numbers may not add up due to rounding. Amounts of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

We will continue to apply the EBSS to AusNet Services in the 2022–27 regulatory control period.³ AusNet Services agreed with our draft decision to exclude debt raising costs and easement land tax expenditure from the scheme.⁴ We will exclude these costs because we have forecast them on a category specific basis and expect to continue doing so in the regulatory control period commencing in 2027–28.

¹ NER, cl. 6A.5.4(a)(5) and 6A.6.5.

² AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 152.

³ NER, cl. 6A.14.1(1)(iv) and 6A.14.3(d)(2); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

⁴ AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 152.

The Australian Energy Market Commission (AEMC) is currently considering a rule change request that would enable transmission networks to recover their actual Australian Energy Market Operator (AEMO) participant fees outside of the revenue determination process.⁵ In the event these fees are collected outside of the revenue determination process, we will exclude them from the EBSS because they will not be forecast on a single year revealed cost forecasting approach for the regulatory control period commencing in 2027–28. We will also make other adjustments as permitted by the EBSS, such as removing movements in provisions and rebates under AEMO's Availability Incentive Scheme (as outlined in Section 8.4).

While growth asset opex has been forecast on a category specific basis, we will not exclude it from the scheme.⁶ This is because we expect the opex related to these costs will be included in the forecast of total opex for the regulatory control period commencing in 2027–28 using the revealed cost approach. This ensures any efficiency gains or losses are passed on to consumers. This approach is consistent with our draft decision and our 2017–22 final decision treatment of growth asset opex.⁷ We have set out in Table 8.2 the opex forecasts we will use to calculate efficiency gains in the 2022–27 regulatory control period, subject to any necessary adjustments.

Table 8.2 Forecast total opex for the EBSS (\$million, 2021–22)

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Forecast total opex	251.4	251.9	277.6	277.8	277.0	277.4	277.6
Less easement land tax	-148.5	-148.5	-173.6	-173.6	-173.6	-173.6	-173.6
Less AEMO participant fees*	-	-	-	-1.4	-1.6	-1.7	-1.8
Less debt raising costs	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Forecast total opex for the EBSS	101.1	101.7	102.3	101.1	100.1	100.5	100.5

Source: AER, *AusNet Services 2022–27 – Final Decision – Post tax revenue model*, January 2022; AER, *AusNet Services 2022–27 – Final Decision – EBSS model*, January 2022; AER analysis.

* In the event AEMO participant fees must be paid for from AusNet Services' standard control services opex, and we use AusNet Services' revealed costs to forecast these in the regulatory control period commencing in 2027–28, we will include them in the EBSS.

Note: Numbers may not add up due to rounding. Amounts of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

⁵ The rule change request was submitted by Energy Networks Australia on behalf of the transmission networks to the AEMC on 24 June 2021.

⁶ See Attachment 6, Section 6.4.5.2 for further details.

⁷ AER, *Final decision, AusNet Services transmission determination 2017– 2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 10–11.

8.2 AusNet Services' revised proposal

8.2.1 Carryover amounts from the 2017–22 control period

AusNet Services proposed we include carryover amounts totalling \$63.6 million (\$2021–22) in its allowed revenues for the 2022–27 regulatory control period from the application of the EBSS in the 2017–22 regulatory control period.⁸

AusNet Services calculated its proposed carryover amounts consistent with our draft decision. For our draft decision we used the estimate of opex for 2020–21 that AusNet Services used in its initial proposal, because an audited actual amount was not yet available. For its revised proposal AusNet Services used its actual audited opex for 2020–21. It also used the latest available inflation forecast for the year to March 2022 to convert amounts into 2021–22 dollars.⁹

8.2.2 Application in the 2022–27 control period

AusNet Services proposed that we continue to apply the EBSS in the 2022–27 regulatory control period, consistent with our draft decision.¹⁰

8.2.3 Stakeholder submissions

CCP23 restated its previous submission that it supported the application of the EBSS on the basis that it is genuinely based on business' revealed efficient opex costs and will fairly share efficiency gains and losses between the business and consumers.¹¹

8.3 Assessment approach

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

- the revenue increments or decrements for each year of the 2022–27 regulatory control period arising from the application of the EBSS during the 2017–22 regulatory control period¹²
- how the EBSS will apply to AusNet Services in the 2022–27 regulatory control period.¹³

The EBSS must provide for a fair sharing of opex efficiency gains and efficiency losses between AusNet Services and network users.¹⁴ We must also have regard to the following matters when implementing the EBSS:¹⁵

⁸ AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 152.

⁹ AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 151.

¹⁰ AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 152.

¹¹ CCP23, *Submission to AER on the Draft Decision and AusNet Services Transmission 2022–27 Revised Proposal*, October 2021, pp. 35–36.

¹² NER, cl. 6A.5.4(a)(5).

¹³ NER, cll. 6A.14.1(1)(iv) and 6A.14.3(d)(2).

- the need to provide AusNet Services with a continuous incentive to reduce opex
- the desirability of both rewarding AusNet Services for efficiency gains and penalising it for efficiency losses
- any incentives that AusNet Services may have to inappropriately capitalise operating expenditure
- the possible effects of the scheme on incentives for the implementation of non-network options.

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.¹⁶

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 benefits of any efficiency gains are retained for less time.

The application of the EBSS serves two important functions:

1. It removes the incentive for a service provider to increase reported opex in the expected base year 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 six 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 to forecast opex, this impacts the service provider's incentives and our decision on how we apply the EBSS.

When a service provider 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 service provider. If we subject costs to the EBSS that are not forecast using a revealed cost approach, a service provider would in theory receive a reward for efficiency gains through the EBSS (at a cost to consumers), but

¹⁴ NER, cl. 6A.6.5(a).

¹⁵ NER, cl. 6A.6.5(b).

¹⁶ NER, cl. 6A.6.6(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).

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 AusNet Services is closely related to 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 AusNet Services' opex.

8.4 Reasons for final decision

8.4.1 Carryover amounts from the 2017–22 control period

Our final decision is to include EBSS carryover amounts totalling \$64.3 million (\$2021–22) from the application of the EBSS in the 2017–22 regulatory control period. This is \$0.6 million (\$2021–22) higher than AusNet Services' revised proposal of \$63.6 million (\$2021–22).¹⁷ This difference is because we used a more recent forecast of inflation in the year to March 2022 than AusNet Services did to convert amounts into 2021–22 dollars. We discuss this in more detail below.

Our final decision on carryover amounts is \$24.8 million (\$2021–22) higher than our draft decision of \$39.5 million (\$2021–22). In addition to inflation, the reason for this difference is due to using audited actual opex for 2020–21, rather than an estimate. We also discuss this in more detail below.

We consider that the EBSS carryover amounts we have calculated provide for a fair sharing of efficiency gains and losses between AusNet Services and consumers. It rewards AusNet Services for the efficiency gains it has made. Further, we consider that the benefit to consumers, through lower forecast opex, is sufficient to warrant the EBSS carryover amounts we have determined.

8.4.1.1 Inflation

Consistent with our standard approach, we used unlagged inflation to convert amounts to 2021–22 real terms. We use unlagged inflation to be consistent with our opex forecast.¹⁸

For our estimate of inflation for 2021–22, we used the inflation forecast in the Reserve Bank of Australia's November 2021 *Statement on monetary policy*.¹⁹ This forecast,

¹⁷ AusNet Services, *Revised revenue proposal 2023–27*, 1 September 2021, p. 152.

¹⁸ This ensures that we use the same actual opex amounts, in real terms, to calculate EBSS carryover amounts as we use to forecast opex. Since customers receive their share of efficiency gains through lower opex forecasts, this ensures AusNet Services is rewarded for the same efficiency gains that are being passed on to customers.

¹⁹ Reserve Bank of Australia, *Statement on monetary policy, Appendix: Forecasts*, November 2021.

which was published after AusNet Services submitted its revised proposal, was higher than the one used by AusNet Services.

8.4.1.2 Actual opex for 2020–21

In our draft decision we used an estimate of AusNet Services' actual opex for 2020–21 to calculate its EBSS carryover amounts. This was because we did not yet have its audited actual amounts for 2020–21. We have since received its 2020–21 regulatory information notice responses. We have used the 2020–21 actual opex amounts AusNet Services reported in its 2020–21 economic benchmarking regulatory information notice templates, which are audited, to calculate its EBSS carryover amounts. These amounts match the ones AusNet Services used to calculate EBSS carryover amounts in its revised proposal.

8.4.2 Application in the 2022–27 control period

Our final decision is to continue to apply the EBSS to AusNet Services in the 2022–27 regulatory control period.²⁰ We consider applying the scheme will benefit the long-term interests of electricity consumers as it will provide a continuous incentive for AusNet Services to reduce opex. Provided we forecast AusNet Services' future opex using its revealed costs in the 2022–27 regulatory control period, any efficiency gains that AusNet Services achieves will lead to lower opex forecasts, and thus lower network tariffs.

The EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts.²¹ We provide details on these below.

8.4.2.1 Adjustments to opex

The EBSS allows us to exclude categories of opex that we do not forecast using a single year revealed cost forecasting approach. 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 following regulatory control period. This is the way consumers and the service provider share 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 on to consumers. It follows that consumers should not pay for EBSS rewards where they do not receive the benefits of a lower opex forecast.

For the 2022–27 regulatory control period we have not forecast debt raising costs and easement land tax using a single year revealed cost forecasting approach and we

²⁰ NER, cll. 6A.14.1(1)(iv) and 6A.14.3(d)(2); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

²¹ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

expect to continue to use the same approach in the 2027–32 regulatory control period. Consequently, we will exclude these costs from the EBSS for the 2022–27 regulatory control period.

Similarly, we have not forecast AEMO participant fees using a single year revealed cost forecasting approach for the 2022–27 regulatory control period. These costs are currently recovered from market customers not transmission networks. However, from 2023–24, AEMO will reallocate a portion of its National Electricity Market fees to transmission networks to reflect its increasing involvement in network related activities. We discuss this further in Attachment 6. The AEMC is currently considering a rule change request that would enable transmission networks to recover their actual AEMO participant fees outside of the revenue determination process.²² In the event this rule change is made, and these fees are collected outside of the revenue determination process, we will exclude them from the EBSS because they will not be forecast using a single year revealed cost forecasting approach for the regulatory control period commencing in 2027–28.

While growth asset opex is forecast on a category specific basis, we have not excluded it from the EBSS.²³ This is because the opex related to the growth assets that will be rolled into the regulatory asset base at the start of the 2022–27 regulatory control period will be included in forecast total opex in the regulatory control period commencing in 2027–28. This ensures any efficiency gains or losses are passed on to consumers. This approach is consistent with our draft decision and our 2017–22 final decision treatment of growth asset opex.²⁴

Consistent with the 2017–22 decision, we will also exclude rebates under AEMO's availability incentive scheme and priority projects approved under the network capability component of STPIS. Including these in the EBSS would distort the incentives provided under the schemes.²⁵

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 2022–27 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 reported actual opex for the 2022–27 regulatory control period to reverse any movements in provisions

²² The rule change request was submitted by Energy Networks Australia on behalf of the transmission networks to the AEMC on 24 June 2021. See: <https://www.aemc.gov.au/rule-changes/recovering-cost-aemos-participant-fees>.

²³ See Attachment 6, Section 6.4.5.2 for further details.

²⁴ AER, *Final decision, AusNet Services transmission determination 2017– 2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 10–11.

²⁵ AER, *Draft Decision, AusNet Services transmission determination 2017– 2022 – Attachment 9 – Efficiency benefit sharing scheme*, April 2017, pp. 13–14.

- adjust actual opex to add capitalised opex that has been excluded from the regulatory asset base
- adjust forecast opex and actual opex for inflation²⁶
- exclude categories of opex not forecast using a single year revealed cost approach for the next regulatory control period beginning in 2027–28, where doing so better achieves the requirements of clause 6A.6.5 of the NER.²⁷

²⁶ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013, p. 7.

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

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CCP 23	Consumer Challenge Panel, sub-panel 23
CPI	consumer price index
EBSS	efficiency benefit sharing scheme
NEL	National Electricity Law
NER	National Electricity Rules
opex	operating expenditure
STPIS	service target performance incentive scheme