

FINAL DECISION

Directlink transmission determination

2015−16 to 2019−20

Attachment 9 − Efficiency benefit sharing scheme

April 2015

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1. Note
2. This attachment forms part of the AER's final decision on Directlink's revenue proposal 2015–20. It should be read with other parts of the final decision.
3. The final decision includes the following documents:
4. Overview
5. Attachment 1 – maximum allowed revenue
6. Attachment 2 – regulatory asset base
7. Attachment 3 – rate of return
8. Attachment 4 – value of imputation credits
9. Attachment 5 – regulatory depreciation
10. Attachment 6 – capital expenditure
11. Attachment 7 – operating expenditure
12. Attachment 8 – corporate income tax
13. Attachment 9 – efficiency benefit sharing scheme
14. Attachment 10 – capital expenditure sharing scheme
15. Attachment 11 – service target performance incentive scheme
16. Attachment 12 – pricing methodology and negotiated services
17. Attachment 13 – pass through events
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[9.5 Reasons for final decision 9-7](#_Toc417735128)

1. Shortened forms

| 1. Shortened form
 | 1. Extended form
 |
| --- | --- |
| 1. AARR
 | 1. aggregate annual revenue requirement
 |
| 1. AEMC
 | 1. Australian Energy Market Commission
 |
| 1. AEMO
 | 1. Australian Energy Market Operator
 |
| 1. AER
 | 1. Australian Energy Regulator
 |
| 1. ASRR
 | 1. annual service revenue requirement
 |
| 1. augex
 | 1. augmentation expenditure
 |
| 1. capex
 | 1. capital expenditure
 |
| 1. CCP
 | 1. Consumer Challenge Panel
 |
| 1. CESS
 | 1. capital expenditure sharing scheme
 |
| 1. CPI
 | 1. consumer price index
 |
| 1. DRP
 | 1. debt risk premium
 |
| 1. EBSS
 | 1. efficiency benefit sharing scheme
 |
| 1. ERP
 | 1. equity risk premium
 |
| 1. MAR
 | 1. maximum allowed revenue
 |
| 1. MRP
 | 1. market risk premium
 |
| 1. NEL
 | 1. national electricity law
 |
| 1. NEM
 | 1. national electricity market
 |
| 1. NEO
 | 1. national electricity objective
 |
| 1. NER
 | 1. national electricity rules
 |
| 1. NSP
 | 1. network service provider
 |
| 1. NTSC
 | 1. negotiated transmission service criteria
 |
| 1. opex
 | 1. operating expenditure
 |
| 1. PPI
 | 1. partial performance indicators
 |
| 1. PTRM
 | 1. post-tax revenue model
 |
| 1. RAB
 | 1. regulatory asset base
 |
| 1. RBA
 | 1. Reserve Bank of Australia
 |
| 1. repex
 | 1. replacement expenditure
 |
| 1. RFM
 | 1. roll forward model
 |
| 1. RIN
 | 1. regulatory information notice
 |
| 1. RPP
 | 1. revenue and pricing principles
 |
| 1. SLCAPM
 | 1. Sharpe-Lintner capital asset pricing model
 |
| 1. STPIS
 | 1. service target performance incentive scheme
 |
| 1. TNSP
 | 1. transmission network service provider
 |
| 1. TUoS
 | 1. transmission use of system
 |
| 1. WACC
 | 1. weighted average cost of capital
 |

# Efficiency benefit sharing scheme

1. The efficiency benefit sharing scheme (EBSS) provides an additional incentive for service providers to pursue efficiency improvements in opex.
2. To encourage a service provider to become more efficient it is allowed to keep any difference between its approved forecast and its actual opex during a regulatory control period. This is supplemented by the EBSS which provides the service provider with an additional reward for reductions in opex it makes and additional penalties for increases in opex. In total these rewards and penalties work together to provide a constant incentive for a service provider to pursue efficiency gains over the regulatory control period. The EBSS also discourages a service provider from incurring opex in the expected base year in order to receive a higher opex allowance in the following regulatory control period.
3. An EBSS did not apply to Directlink during the 2006–15 regulatory control period.

## Final decision

1. We will apply version two of the EBSS to Directlink during the 2015–20 regulatory control period. [[1]](#footnote-1) We will exclude debt raising costs from the calculation of EBSS carryover amounts. This is consistent with our draft decision. Table 9.1 illustrates the total opex forecasts we expect we will use to calculate efficiency gains and losses for the 2015–20 regulatory control period.

## Draft decision

We proposed to apply version two of the EBSS to Directlink for the 2015–20 regulatory control period. We also proposed:[[2]](#footnote-2)

* a five year carryover period
* to exclude debt raising costs from the calculation of the EBSS carryover amounts
* the efficiency gain in the first year will be the difference between actual opex and forecast opex in that year.

## Directlink’s revised proposal

Directlink did not comment on the EBSS in its revised proposal.

## Assessment approach

1. Our assessment approach is the same as in the draft decision. In the draft decision we also discuss the interrelationships between the EBSS, our forecasting approach and other incentive schemes.[[3]](#footnote-3)

Details of how version two of the EBSS will operate are set out in Explanatory Statement - Efficiency Benefit Sharing Scheme for Electricity Network Service Providers. It specifies our approach to determining the length of the carryover period, calculating the incremental efficiency gains and adjusting forecast or actual opex when calculating carryover amounts [[4]](#footnote-4)

## Reasons for final decision

We will apply version two of the EBSS to Directlink during the 2015–20 regulatory control period.

Our final decision is the same as our draft decision. In its revised proposal, Directlink did not comment further on the EBSS, and we did we receive any submissions on the matter. Therefore, we see no reason for our final decision to change from our draft decision.

Table 9.1 sets out our final decision on Directlink's target opex for the EBSS (total opex less excluded categories) against which we will calculate efficiency gains in the 2015–20 regulatory control period.

Table . Final decision on Directlink's forecast opex for the EBSS
($ million, 2014–15)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2015–16 | 2016–17 | 2017–18 | 2018–19 | 2019–20 | Total |
| Forecast opex for EBSS (excluding debt raising costs) | 4.09 | 3.37 | 3.45 | 3.41 | 3.42 | 17.73 |

Note: Numbers may not add due to rounding.

1. AER, Efficiency benefit sharing scheme for electricity network service providers, November 2013. [↑](#footnote-ref-1)
2. AER, Draft decision, Directlink transmission determination, Attachment 9 EBSS, November 2014, p. 9-8 to 10. [↑](#footnote-ref-2)
3. AER, Draft decision, Directlink transmission determination, Attachment 9 EBSS, November 2014, p. 9-8. [↑](#footnote-ref-3)
4. AER, Explanatory Statement - Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, November 2013. [↑](#footnote-ref-4)