Combined Proposal 2024-2029

Attachment 10
Efficiency benefit sharing scheme

Outline: This attachment to TasNetworks' Combined Proposal sets out how the Efficiency Benefit Sharing Scheme will apply during the 2024-2029 regulatory control period.

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Note

This attachment forms part of TasNetworks' Combined Proposal for the 2024-2029 regulatory control period and should be read in conjunction with the other parts of the proposal. TasNetworks' Combined Proposal is made up of the documents and attachments listed below, as well as the supporting documents that are listed in Attachment 23.

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Attachment 3	Regulatory asset base
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Attachment 10	**Efficiency benefit sharing scheme**
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10 Efficiency benefit sharing scheme

10.1 Introduction

The Efficiency Benefit Sharing Scheme (**EBSS**) gives network service providers (**NSPs**) a continuous incentive to pursue operating expenditure (**opex**) efficiency improvements and provides for the sharing of any savings between NSPs and their customers. Under the scheme, NSPs retain the efficiency gains they achieve for a carry-over period (usually five years) and customers benefit from improved efficiencies through lower network prices in future regulatory control periods. Under this approach, reductions in an NSP's opex, relative to the opex allowances set by the Australian Energy Regulatory (**AER**), are shared approximately 30:70 between the NSP and its customers.

The AER determines separate EBSS rewards or penalties for TasNetworks' transmission and distribution networks for each five-year regulatory control period. National Electricity Rules (**NER**) clause 6A.6.5 and clause 6.5.8 establish an EBSS for transmission and distribution respectively. NER clause S6A.1.3(3) and clause S6.1.3(3) require NSPs to specify the EBSS values proposed to be applied in a regulatory control period and explain how those values comply with the EBSS' requirements.

TasNetworks' EBSS reward and penalty for the 2019-2024 regulatory control period have been calculated in accordance with version 2 of the EBSS, as applied by the AER.[1] TasNetworks' transmission network reward is forecast to be $0.2 million and the distribution network penalty is forecast to be $2.9 million ($2023-24). These outcomes will be applied as an additional building block adjustment to TasNetworks' revenue in the 2024-2029 regulatory control period.

The EBSS is inherently linked to the forecasting approach for opex. As noted in Attachment 8 Operating expenditure, the base-step-trend method has been applied to determine TasNetworks' opex forecast for the 2024-2029 regulatory control period and, as part of that methodology, it is contended that our base year expenditure is efficient. On that basis, TasNetworks proposes that version 2 of the EBSS should continue to be applied to both TasNetworks' distribution and transmission networks in the 2024-2029 regulatory control period. In addition, we propose adjustments to the transmission EBSS for the 2024-2029 regulatory control period, including two new exclusions:

- opex arising from actionable Integrated System Plan (**ISP**) projects
- opex arising from Renewable Energy Zone (**REZ**) developments.

10.2 Outcomes from the EBSS in the current regulatory control period

In Attachment 8 we outline the efforts we have made during the current regulatory control period to ensure that we are operating in an efficient and prudent manner.

Application of the EBSS can give rise to bonuses or penalties in each year of a regulatory control period, depending on whether TasNetworks has underspent or overspent the opex allowances determined by the AER. Under the scheme, TasNetworks retains any opex efficiency gains or losses for a five-year period, after which the gains or losses are passed onto customers.

1 AER, TasNetworks determination 2019-24, Attachment 8 – Efficiency benefit sharing scheme

TasNetworks' 2019-2024 regulatory determination excluded the following cost categories from the operation of the EBSS:

- debt raising costs (transmission and distribution)
- opex on network capability incentive projects under the Service Target Performance Incentive Scheme (transmission)
- Guaranteed Service Level (**GSL**) payments (distribution)
- Electrical Safety Inspection (**ESI**) levy payments (distribution)
- National Energy Market (**NEM**) levy payments (distribution)
- Network support costs (transmission).

In addition, when calculating the EBSS carryover amounts to be applied in the 2024-2029 regulatory control period, we propose that:

- TasNetworks' actual opex be adjusted to reverse any movements in provisions
- TasNetworks' forecast opex be adjusted to add (or subtract) any approved revenue increments (or decrements) made after the AER's initial regulatory determination, so that factors like approved pass-through events and contingent project expenditure are reflected in TasNetworks' EBSS outcomes
- TasNetworks' actual opex be adjusted by adding capitalised opex that has been excluded from TasNetworks' regulatory asset base
- categories of opex not forecast using a single year revealed cost approach for the regulatory control period beginning on 1 July 2024 be excluded, where doing so better achieves the requirements of clauses 6.5.8 and 6A.6.5 of the NER.

Tables 1 and 2 show TasNetworks' adjusted opex during the current regulatory control period for the transmission and distribution networks, compared to the opex allowances set by the AER. The data contained in both tables is used to calculate TasNetworks' efficiency gains to be carried over into the 2024-2029 regulatory control period. It is consistent with the information TasNetworks has applied in the EBSS models that accompany TasNetworks' combined proposal for the 2024-2029 regulatory control period.

Table 1. Transmission historical cost performance for EBSS carryover calculation (2023-24, $ million)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Forecast opex for EBSS purposes	55.7	55.0	35.5	35.6	35.8	36.0	36.2
Actual opex	36.2	38.2	33.2	36.8	36.6	38.3	N/A
Less							
Debt raising costs	0.0	0.0	0.0	0.0	0.0	0.0	N/A
Self-Insurance	1.0	1.0	0.0	0.0	0.0	0.0	N/A
Network support costs	0.0	0.0	0.0	0.0	0.0	0.0	N/A
Other Adjustments	0.0	0.0	0.0	1.4	0.3	2.5	N/A
Adjustment for provisions	(0.4)	(0.6)	0.1	(0.1)	(0.6)	0.0	N/A
Adjusted actual opex	34.9	36.6	33.3	35.3	35.7	35.8	36.1

Table 2. Distribution historical cost performance for EBSS carryover calculation (2023-24, $ million)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Forecast opex for EBSS purposes	76.8	75.0	100.2	99.7	98.6	97.5	96.4
Actual opex	107.9	96.1	100.8	107.8	104.3	102.3	N/A
Less							
Debt raising costs	0.0	0.0	0.0	0.0	0.0	0.0	N/A
GSL payments	4.0	1.6	1.3	1.8	3.5	2.0	N/A
DMIA	0.0	0.0	0.0	0.2	0.0	0.0	N/A
ESI levy payments	4.8	4.8	5.3	5.3	5.1	5.1	N/A
NEM levy payments	0.8	0.8	0.9	0.8	0.8	1.4	N/A
Adjustment for provisions	(1.0)	(1.3)	0.0	0.0	0.0	0.0	N/A
Adjusted actual opex	99.3	90.3	93.3	99.7	94.8	93.7	92.7

TasNetworks' transmission opex in the 2019-2024 regulatory control period has been consistent with the opex allowance set by the AER, resulting in a projected EBSS reward of $0.2 million ($2023-24) carrying over into the 2024-2029 regulatory control period, as shown in Table 3.

Table 3. Transmission EBSS carryover amounts for the 2024-2029 regulatory control period (2023-24, $ million)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
EBSS carry over amount	2.5	(2.1)	(0.2)	0.0	0.0	0.2

As shown in Table 2, TasNetworks distribution network opex has been less than the opex allowance set by the AER in each year of the current regulatory control period. There is, however, a minor penalty to be applied from the reconciliation of the final year from the previous (two year) regulatory control period (2018-19). This results in a projected overall penalty of $2.9 million ($2023-24) carrying over into the 2024-2029 regulatory control period, as shown in Table 4.

Table 4. Distribution EBSS carryover amounts for the 2024-2029 regulatory control period (2023-24, $ million)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
EBSS carry over amount	(3.5)	(3.2)	3.8	0.0	0.0	(2.9)

10.3 EBSS applying from 1 July 2024

The AER's Final Framework and Approach paper[2] outlines an intent to apply the EBSS to TasNetworks in the 2024-2029 regulatory control period, if the AER can be satisfied that the scheme's application will result in efficiency gains and losses being shared fairly between TasNetworks and consumers. The AER notes that for this to happen, TasNetworks' operating expenditure forecast for the 2024-2029 regulatory control period will need to be based on TasNetworks' revealed costs in the current regulatory control period.

As discussed in Attachment 8, TasNetworks proposes a revealed cost forecasting approach for the 2024-2029 regulatory control period. Therefore, we propose that the EBSS version 2 should also apply.

Clause 1.4 of EBSS version 2 enables the AER to adjust an NSP's forecast or actual opex when calculating carryover amounts. Among other adjustments, these provisions within the EBSS enable:

- forecast opex to be adjusted to add any approved revenue increments or subtract any approved revenue decrements made after the initial regulatory determination, such as pass through amounts or opex for contingent projects; and
- the exclusion of categories of opex not forecast using a single year revealed cost approach for the regulatory control period, where doing so better achieves the requirements of clauses 6.5.8 and 6A.6.5 of the NER.

TasNetworks proposes that all the exclusions applying to TasNetworks in the 2019-2024 regulatory control period be applied to the EBSS in the 2024-2029 regulatory control period, as well as a number of additional categories of opex that are not able to be forecast for the coming regulatory control period using a single year revealed cost approach. On that basis, the categories of opex proposed by TasNetworks to be excluded from the EBSS for the 2024-2029 regulatory control period are:

- debt raising costs (transmission and distribution)
- opex on network capability incentive projects under the Service Target Performance Incentive Scheme (transmission)
- GSL payments (distribution)
- ESI levy payments (distribution)
- NEM levy payments (distribution)
- network support costs (transmission)
- opex for contingent projects (transmission)
- pass through amounts (transmission and distribution)
- opex arising from actionable ISP projects (transmission)
- opex arising from REZ developments (transmission).

All but two of the proposed exclusions are consistent with the application of the EBSS to TasNetworks during the current regulatory control period. The final two exclusions proposed in the above list have been nominated for the following reasons.

10.3.1 Opex arising from ISP projects

Transmission network service providers (**TNSPs**) are obligated to progress the early works related to actionable ISP projects identified by the Australian Energy Market Operator (**AEMO**). This introduces the possibility of significant costs being incurred by TNSPs during a regulatory control period that are over and above the recurrent costs associated with the delivery of prescribed transmission services and for which no allowance has been made as part of a revenue determination. If these projects do not proceed, for regulatory purposes the expenditure incurred is likely to be treated as opex.

Due to this uncertainty, any expenditure of this nature should be excluded from the EBSS, because of the potential for TasNetworks' opex to exceed its allowance, resulting in an EBSS penalty which is unrelated to TasNetworks' opex efficiency. The inclusion of opex arising from actionable ISP projects in the EBSS also creates a perverse incentive to proceed with projects which may only be of marginal economic viability in order to avoid penalty under the EBSS, or to at least factor in the avoidance of an EBSS penalty into any cost-benefit analysis.

10.3.2 Opex arising from REZ developments

TNSPs are obliged to prepare detailed REZ design reports if required by AEMO in an ISP. TasNetworks proposes to exclude REZ development costs from the EBSS as these costs will not be recognised within our approved opex allowance. As noted above in relation to the costs associated with actionable ISP projects, the incentive to proceed with REZ design reports is optimally preserved by EBSS exclusion.

10.3.3 EBSS opex forecasts

TasNetworks proposes that the opex forecasts presented in Table 5 and Table 6 be used to establish the controllable opex forecasts for the transmission and distribution networks applicable to EBSS calculation for the 2024-2029 regulatory control period.

2 AER, Final Framework and Approach for TasNetworks for the 2024-29 regulatory control period, July 2022, p. 50

Table 5 Transmission EBSS opex forecasts (2023-24, $ million)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Forecast opex	39.80	41.57	42.51	42.66	42.68	209.22
Less						
Debt raising costs	0.85	0.85	0.85	0.84	0.83	4.22
Network support costs	0.00	0.00	0.00	0.00	0.00	0.00
Pass through amounts	0.00	0.00	0.00	0.00	0.00	0.00
Adjustment for provisions	0.00	0.00	0.00	0.00	0.00	0.00
Less actionable ISP project costs	0.00	0.00	0.00	0.00	0.00	0.00
Less REZ development costs	0.00	0.00	0.00	0.00	0.00	0.00
Forecast opex for EBSS purposes	38.94	40.72	41.67	41.82	41.85	205.00

Table 6 Distribution EBSS operating forecasts (2023-24, $ million)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Forecast opex	105.99	107.74	108.80	109.07	109.45	541.04
Less						
debt raising costs	1.08	1.09	1.11	1.11	1.10	5.49
GSL payments	3.97	3.97	3.97	3.97	3.97	19.84
NEM levy payments	1.47	1.47	1.36	1.17	1.17	6.64
ESI levy payments	5.09	5.09	5.09	5.09	5.09	25.45
Adjustment for provisions	0.00	0.00	0.00	0.00	0.00	0.00
Forecast opex for EBSS purposes	94.38	96.12	97.27	97.74	98.11	483.62


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