14. Expenditure Incentive Schemes

14.1 Introduction

This chapter outlines net carryover amounts from the current 2018-22 regulatory period and Powerlink's targets for the Efficiency Benefit Sharing Scheme (EBSS) and the Capital Expenditure Sharing Scheme (CESS) for the 2023-27 regulatory period. The EBSS relates to operating expenditure and the CESS relates to capital expenditure.

Key highlights:

- For the EBSS, we:
  - estimate a net positive carryover amount of $8.4m from the 2018-22 regulatory period be used to adjust the Maximum Allowed Revenue (MAR) for the 2023-27 regulatory period; and
  - propose that $999.7m of our forecast operating expenditure for the 2023-27 regulatory period be subject to the EBSS.
- For the CESS, we:
  - estimate a net negative carryover amount of -$3.7m from the 2018-22 regulatory period be used to adjust the MAR for the 2023-27 regulatory period; and
  - propose that $858.9m of our forecast capital expenditure for the 2023-27 regulatory period be subject to the CESS.

14.2 Regulatory requirements

In its Final Framework and Approach Paper[1] for Powerlink, the Australian Energy Regulator (AER) proposes to apply its 2013 EBSS (Version 2) and 2013 CESS (Version 1) to our 2023-27 regulatory period. Our Revenue Proposal aligns with that approach.

14.3 Efficiency Benefit Sharing Scheme

The purpose of the EBSS is to provide a continuous incentive for Network Service Providers (NSPs) to pursue efficiency improvements in operating expenditure. The EBSS also enables efficiency gains (or losses) to be shared between a NSP and its network users.

14.3.1 Carryover amount from the 2018-22 regulatory period

Under the EBSS, our MAR for the 2023-27 regulatory period is adjusted for a portion of operating expenditure efficiency gains/losses accrued during the 2018-22 regulatory period (the carryover amount)[2]. Our total EBSS carryover amount from the 2018-22 regulatory period is $8.4m as shown in Table 14.1.

Table 14.1: EBSS carryover amount ($m real, 2021/22)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
EBSS carryover	8.3	(7.6)	-	1.6	6.1	**8.4**

Our calculated EBSS carryover is based on the difference between our actual/forecast operating expenditure target (for the purpose of the EBSS) for the first three years of the 2018-22 regulatory period and an estimate of that difference for the last two years (2020/21 and 2021/22)[3]. We have also adjusted our forecast and actual operating expenditure in each year of the 2018-22 regulatory period for inflation.

Adjustments

We excluded $12.1m (nominal) of non-recurrent expenditure related to 500kV project costs from the 2014/15 base year operating expenditure to forecast operating expenditure for the 2018-22 regulatory period to establish an efficient level of recurrent expenditure. Consistent with this treatment, we have made an adjustment in the EBSS model to recognise the non-recurrent efficiency adjustment made to 2014/15 to calculate the incremental efficiency gain for 2017/18.

1 Final Framework and Approach for Powerlink, Australian Energy Regulator, July 2020.
2 Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, Australian Energy Regulator, November 2013, Section 1.3.
3 The AER will adjust for 2020/21 actuals in its Final Decision.

An adjustment of $0.4m was made to remove expenditure associated with a Network Capability Incentive Parameter Action Plan (NCIPAP) project that was undertaken in 2017/18 and 2018/19 (refer Chapter 15 Service Target Performance Incentive Scheme). This is consistent with the AER's Service Target Performance Incentive Scheme (STPIS)[4], as NCIPAP projects do not form part of our operating expenditure forecasts.

Movements in provisions related to operating expenditure of $1.9m have also been excluded in the EBSS model. This is consistent with the AER's treatment of these costs in the 2018-22 regulatory period and the AER's 2013 Expenditure Forecast Assessment Guideline[5].

These adjustments were discussed and confirmed with AER staff prior to the lodgement of our Revenue Proposal.

14.3.2 EBSS target for the 2023-27 regulatory period

Our total EBSS target for the 2023-27 regulatory period is $999.7m and is shown in Table 14.2.

Table 14.2: EBSS target ($m real, 2021/22)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Operating expenditure forecast	207.4	209.8	209.2	209.9	210.1	**1,046.4**
Adjustments						
Debt raising costs	3.5	3.5	3.4	3.3	3.2	**17.0**
Network support costs	-	-	-	-	-	**-**
Australian Energy Market Commission (AEMC) Levy	5.9	5.9	5.9	6.0	6.0	**29.7**
EBSS target	198.0	200.4	199.8	200.6	200.9	**999.7**

We have used 2018/19 as our base year to forecast our operating expenditure for the 2023-27 regulatory period (refer Chapter 6 Forecast Operating Expenditure).

Consistent with Version 2 of the EBSS[6], we have excluded categories of operating expenditure not forecast using a single year revealed cost approach for our proposed EBSS target for the 2023-27 regulatory period. This includes debt raising, network support and the AEMC Levy cost categories.

These adjustments have been discussed with AER staff prior to the lodgement of our Revenue Proposal.

14.4 Capital Expenditure Sharing Scheme

The purpose of the CESS is to provide a continuous incentive for NSPs to undertake efficient capital investments. As with the EBSS, the CESS enables efficiency gains (or losses) to be shared between the NSP and network users.

14.4.1 Carryover amount from the 2018-22 regulatory period

The CESS requires that we adjust our MAR for the 2023-27 regulatory period for our share of any capital expenditure efficiency gains/losses from the 2018-22 regulatory period (the carryover amount).

Our total CESS carryover amount from the 2018-22 regulatory period is negative $3.7m as shown in Table 14.3.

Table 14.3: CESS carryover amount ($m real, 2021/22)

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
CESS carryover	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	**(3.7)**

This calculation is based on the difference between our actual/forecast capital expenditure target (for the purpose of the CESS) for the first three years of the 2018-22 regulatory period and a forecast of that difference for the last two years (2020/21 and 2021/22)[7]. We have also adjusted our forecast and actual capital expenditure in each year of the 2018-22 regulatory period for inflation.

4 Service Target Performance Incentive Scheme, Australian Energy Regulator, October 2015, clause 5.2 (r)(1).
5 Expenditure Forecast Assessment Guideline for Electricity Transmission, Australian Energy Regulator, November 2013, page 22.
6 Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, Australian Energy Regulator, November 2013, Section 1.4.
7 As with the EBSS, the AER will adjust for 2020/21 actuals in its Final Decision.

Adjustments

Our capital expenditure forecast for 2018-22 included a proposed office building refit project. This has been deferred to the 2023-27 regulatory period as outlined in Chapter 4 Historical Capital and Operating Expenditure. We intend to return the revenue attributable to the capital expenditure allowance for this project to customers in 2021/22. We also propose to adjust for this deferred capital expenditure in the calculation of the CESS carryover to remove the CESS payment for the capital expenditure underspend in the current regulatory period associated with this project.

Movements in provisions related to capital expenditure have also been excluded in the CESS model. This is consistent with the AER's 2013 Capital Expenditure Incentive Guideline[8].

14.4.2 CESS target for the 2023-27 regulatory period

Our total CESS target for the 2023-27 regulatory period is $858.9m and is shown in Table 14.4.

Table 14.4: CESS target ($m real, 2021/22)

	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Capital expenditure forecast	190.9	209.4	157.2	152.4	154.0	**863.9**
Adjustments	-	-	-	-	-	**-**
Movement in provisions	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	**(5.0)**
CESS target	189.9	208.4	156.2	151.4	153.0	**858.9**

Consistent with 2013 CESS (Version 1), adjustments may be made during the 2023-27 regulatory period for any capital expenditure approved by the AER for contingent projects that are triggered. Our proposed contingent projects are outlined in our capital expenditure forecast (refer Chapter 5 Forecast Capital Expenditure).

14.5 Summary

We have proposed carryover amounts and targets for the EBSS and CESS consistent with the AER's incentive guidelines and its Final Framework and Approach Paper for Powerlink for the 2023-27 regulatory period.

[8] Capital Expenditure Incentive Guideline for Electricity Network Service Providers, Australian Energy Regulator, November 2013.