Efficiency Benefit Sharing Scheme

OVERVIEW | JUNE 2025

The purpose of this information sheet is to provide a high-level overview of the efficiency benefit sharing scheme (EBSS).

What is the EBSS?

The EBSS is an incentive based regulatory mechanism developed by the Australian Energy Regulator (AER) to encourage Network Service Providers (NSPs) to continuously improve their efficiency in operating expenditure (opex).

The EBSS aims to provide a continuous incentive for a network business to pursue cost savings in operating and maintenance expenditure over a regulatory period.

Why is the EBSS in place?

The purpose of this scheme is to incentivise NSPs to seek out and implement cost-saving measures over a regulatory period and helps to ensure that network businesses are operating as efficiently as possible.

The EBSS ensures that any cost savings or efficiency gains are shared between the network businesses and their users, ultimately leading to lower prices for customers.

How does the EBSS work?

An annual opex allowance is set by the AER at the start of a regulatory period (usually five years). The allowance is intended to represent the efficient cost for the business to meet its regulatory obligations.

The NSP has the opportunity to outperform the allowance (target) each year.

- Spend under the target is treated as an efficiency gain
- Spend over the target is treated as an efficiency loss.

Under the EBSS, network businesses are allowed to retain any underspends for a total of six years, no matter which year they achieve these underspends.

This means that even if a company spends less in the first year, they can benefit from those savings for the next six years.

Consumers will then see lower forecast operational expenditure (opex) in future regulatory periods, which translates into lower prices.

For example, if a service provider's actual opex in a given year is less than the forecast target, they have achieved an efficiency gain. This gain would be carried over to future years, potentially allowing the service provider to earn additional revenue. Conversely, if the actual opex is higher than the target, the service provider would have experienced an efficiency loss, which would result in a revenue penalty.

For more information about EBSS and other incentive schemes refer to our 2027-32 Revenue Proposal, Chapter 14 Expenditure Incentive Schemes.

Symmetrical – applies to both efficiency gains and losses

Calculates gains/losses on an *incremental basis*

5

NSP keeps the gain/loss for 5-years from when it was incurred

80:20

Shares benefits approx. 80:20 in favour of customers