

27 June 2017



WHAT

IPART's Terms of Reference require us to apply an energy adjustment mechanism (EAM) and an efficiency carryover mechanism (ECM) when setting SDP's maximum prices.

We have updated the methodologies for the EAM and ECM, which are contained in our 2017 Methodology Paper.

For the EAM, we have:

- ▼ Increased SDP's share of surplus energy gains and losses, outside the core band, from 10% to 20%.
- ▼ Strengthened our prudence test of SDP's surplus energy management.

For the ECM, we have:

- ▼ Maintained our approach of allowing SDP to retain mode-specific savings for up to five consecutive years.
- ▼ Ensured that SDP retains efficiency savings for a maximum of five consecutive years (including the year the efficiency saving is first achieved), consistent with the Terms of Reference.



WHY

The mechanisms influence how risks and rewards are shared between SDP and its customers. We have updated the EAM to **strengthen SDP's incentives to prudently manage its surplus energy**. We have clarified how **the ECM provides SDP appropriate incentives to deliver efficiency savings** that benefit customers through lower prices.



HOW

Our review of the 2012 Methodology Paper has followed IPART's established price review process.

In developing our 2017 Methodology Paper, we have considered feedback received from stakeholders, including through SDP's pricing proposal, stakeholder submissions to our Issues Paper and Draft Report, and views expressed at the Public Hearing.

We also engaged an expert consultant to assist with our review of the EAM.



WHEN

The updated EAM and ECM methodologies will be applied at the SDP 2022 Price Review and factored into prices over the 2022 determination period. The updated EAM and ECM methodologies will influence SDP's incentives to manage its surplus energy and deliver efficiency savings over the 2017 determination period.



LEARN MORE

The 2017 Methodology Paper and additional information relevant to this review including stakeholder submissions, the transcript from the public hearing, and our consultant report are available on our website (www.ipart.nsw.gov.au) and can be accessed directly [here](#).