DRAFT DECISION

Powercor
Distribution Determination
2021 to 2026

Attachment 10
Service target performance incentive scheme

September 2020

AUSTRALIAN ENERGY REGULATOR

© Commonwealth of Australia 2020

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications
Australian Competition and Consumer Commission
GPO Box 3131, Canberra ACT 2601

or publishing.unit@accc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: VIC2021-26@aer.gov.au

Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Powercor for the 2021–26 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme and demand management innovation allowance mechanism

Attachment 12 – Not applicable to this distributor

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment A – Victorian f-factor incentive scheme

Contents

10 Service target performance incentive scheme

Under clauses 6.3.2 and 6.12.1(9) of the National Electricity Rules (NER) our regulatory determination must specify how any applicable Service Target Performance Incentive Scheme (STPIS) is to apply in the next regulatory control period.

This attachment sets out our draft decision on how we will apply the STPIS to Powercor for the 2021–26 regulatory control period, where STPIS 2.0 will apply.

AER's service target performance incentive scheme

The STPIS is intended to balance incentives to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to distributors to maintain and improve service performance where customers are willing to pay for these improvements. The current version (version 2.0) of STPIS was published in November 2018[1] and applies to all revenue determinations from that date. This newer version 2.0 replaces the earlier version 1.0 of the scheme.

AER framework and approach to the application of STPIS

In the final Framework and Approach (F&A), we stated that we will apply version 2.0 of STPIS to Powercor in the next regulatory control period.[2]

For the 2021–26 regulatory control period we proposed to:

- set revenue at risk at ± 5.0 per cent
- segment the network according to the urban, rural short and rural long feeder categories
- apply the System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI), Momentary Average Interruption Frequency Index (MAIFI) and customer service (telephone answering) parameters
- set performance targets based on the distributor's average performance over the past five regulatory years
- apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets
- apply the method and values of customer reliability (VCR) as indicated in the Australian Energy Market Operator's 2014 Value of Customer Reliability Review final report, unless a more up-to-date value is available

---

1 AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018. (AER, *STPIS v2.0*, November 2018).

2 AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

- apply STPIS 2.0 if the revised scheme is completed on time for the Victorian distributors revenue determination
- not apply the guaranteed service level (GSL) component of the STPIS, as the Victorian distributors remain subject to a jurisdictional GSL scheme.[3]

10.1 Draft decision

Our draft decision is to apply the STPIS 2.0 to Powercor for the 2021–26 regulatory control period. Powercor is also required to submit the 2019–20 STPIS actual performance data in its revised revenue proposal in order for the targets to be calculated in our final decision.

We have taken into account Powercor's revenue proposal, submissions raised by stakeholders and the F&A in reaching our draft decision.[4] Our response to the matters raised by Powercor and stakeholders about the application of STPIS are discussed below.

Table 10.1 and Table 10.2 present our draft decision on the applicable incentive rates and targets that will apply to Powercor for the 2021–26 regulatory control period.

Table 10.1 Draft decision – STPIS incentive rates for Powercor for the 2021–26 regulatory control period

	Urban	Rural short	Rural long
SAIDI	0.0326	0.0347	0.0215
SAIFI	1.7701	2.0560	1.6985
MAIFI	0.1416	0.1645	0.1359
Telephone answering			–0.040%

Source: AER analysis.

[3] AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

[4] Powercor, *Regulatory proposal 2021–26,* January 2020, pp. 149–150. AER, Information request Powercor IR#005 - PAL MOD 10.11 - Incentives - Jan2020 - Public (updated 02042020); PAL MOD 10.12 - Targets - Jan2020 - Public (updated 02042020), 3 April 2020.

Table 10.2 Draft decision – STPIS reliability targets for Powercor for the 2021–26 regulatory control period

	Value
Urban	
SAIDI	69.413
SAIFI	0.853
MAIFI	1.215
Rural short	
SAIDI	98.309
SAIFI	1.105
MAIFI	2.617
Rural long	
SAIDI	248.314
SAIFI	2.092
MAIFI	4.684
Telephone answering	82.7%

Source: AER analysis.

10.2 Powercor's proposal

Powercor's revenue proposal accepted our F&A position on how STPIS will apply to calculate its targets, incentive rates and major event day (MED).[5]

10.3 Assessment approach

We are required to make a decision on how the STPIS is to apply to Powercor under the NER.[6] When making a distribution determination, the STPIS requires us to determine all performance targets, incentive rates, revenue at risk and other parameters under the scheme that will apply to the distributor.[7]

5 Powercor, *Regulatory proposal 2021–26,* January 2020, pp. 149–150. AER, Information request Powercor IR#005 - PAL MOD 10.11 - Incentives - Jan2020 - Public (updated 02042020); PAL MOD 10.12 - Targets - Jan2020 - Public (updated 02042020), 3 April 2020.

6 NER, cl. 6.12.1(9).

7 AER, *STPIS*, November 2018, cl. 2.1(d).

10.3.1 Interrelationships

In implementing the STPIS we must take into account any other incentives available to the distributor under the NER or relevant distribution determination.[8] One of the objectives of the STPIS is to ensure that the incentives are sufficient to offset any financial incentives the distributor may have to reduce costs at the expense of service levels. For the 2021–26 regulatory control period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS) and the operating expenditure (opex) Efficiency Benefit Sharing Scheme (EBSS).

The reward and penalty mechanism under the STPIS (the incentive rates) are determined based on the average customer value for the improvement, or otherwise, to supply reliability (the VCR). This is aimed at ensuring that the distributor's operational and investment strategies are consistent with customers' value for the services that are offered to them.

Our capital expenditure (capex) and opex allowances are set to reasonably reflect the expenditures required by a prudent and efficient business to achieve the capex and opex objectives. These include complying with all applicable regulatory obligations and requirements and, in the absence of such obligations, maintaining quality, reliability, and security outcomes.

The STPIS provides an incentive for distributors to invest in further reliability improvements (via additional STPIS rewards) where customers are willing to pay for it. Conversely, the STPIS penalises distributors where they let reliability deteriorate. Importantly, the distributor will only receive a financial reward after actual improvements are delivered to the customers.

In conjunction with CESS and EBSS, the STPIS will ensure that:

- any additional investments to improve reliability are based on prudent economic decisions
- any reduction in capex and opex are achieved efficiently, rather than at the expense of service levels to customers.

10.4 Reasons for draft decision

We will apply the STPIS 2.0 to Powercor in accordance with our F&A.[9] The following section sets out our detailed consideration on applying the STPIS to Powercor for the 2021–26 regulatory control period.

---

8 NER, cl. 6.6.2(b)(3)(iv).

9 AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

10.4.1 Revenue at risk

Revenue at risk caps the potential reward and penalty for Powercor under the STPIS. As stated in the F&A, we consider an incentive of ± 5.0 per cent of the annual forecast revenue is appropriate for Powercor because it has demonstrated strong reliability performance; hence, a ± 5.0 per cent limit is a good balance between the incentives to maintain reliability versus consumer price impact.[10]

10.4.2 Reliability of supply component

Applicable components and parameters

We will apply unplanned SAIDI, unplanned SAIFI and unplanned MAIFI parameters under the reliability of supply component to Powercor's feeder segments for the 2021–26 regulatory control period. Unplanned SAIDI measures the sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers. Unplanned SAIFI measures the total number of unplanned sustained customer interruptions divided by the total number of distribution customers. Unplanned MAIFI measures the total momentary interruptions divided by the total number of distribution customers.[11]

Exclusions

The STPIS allows certain events to be excluded from the calculation of the S-factor revenue adjustment. These exclusions include the events specified in the STPIS, such as the effects of transmission network outages and other upstream events. They also exclude the effects of extreme weather events that have the potential to significantly affect Powercor's underlying STPIS performance.

Our F&A paper stated that we will apply the methodology indicated in the national STPIS for excluding specific events from the calculation of annual performance targets. The default method for calculating the MED in the STPIS is to apply the 2.5 beta method. However, subject to our approval, distributors can propose a MED boundary that is greater than 2.5 standard deviations from the mean.[12]

Powercor proposed to calculate the MED thresholds using the 2.8 beta method in accordance with Appendix D of the STPIS.[13] We accept Powercor's application of the 2.8 beta method to calculate the MED. This proposed exclusion threshold is the same as that for the current 2016–20 regulatory control period. A higher beta value means that there will be fewer MED events—in other words, Powercor will be accountable for

---

10 AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

11 Sustained interruption means supply interruption longer than three minutes. Momentary interruptions are those supply interruptions lasting less than three minutes.

12 AER, *STPIS v2.0*, November 2018, Appendix D.

13 Powercor, *Regulatory Proposal 2021–26,* January 2020, pp. 149-150.

the outcomes of more exceptional events and provide a higher level of supply reliability.

Performance targets

The STPIS specifies that the performance targets should be based on the average performance over the past five regulatory control years. It also states that the performance targets must be modified for any reliability improvements completed or planned where:

- the planned reliability improvements are included in the expenditure program proposed by the network service provider and
- it is expected to result in a material improvement in supply reliability.[14]

Powercor's revenue proposal has no reliability improvement capex and therefore no adjustments to its reliability targets are required.

For this draft decision, our calculated performance targets for Powercor for the 2021–26 regulatory control period are presented in Table 10.2. These performance targets have been calculated using historical data as defined under STPIS 2.0 submitted by Powercor in its revenue proposal.[15] For the final decision, the performance target will be updated to include the 2019–20 performance data.

Stakeholders should be aware that previously published historical performance data should not be used to compare with the data submitted by Powercor for target setting purposes for the next regulatory control period. This is due to changes in the definition of sustained interruptions from longer than one minute to three minutes as suggested by the Australian Energy Market Commission and adopted in our Distribution Reliability Measures Guidelines and STPIS 2.0.[16]

Submissions

The submission from the Victorian Community Organisations submitted that:[17]

- As the STPIS targets are set each regulatory period based on performance in the current period, effectively, this means there is a significant time period between when the reliability measure was achieved and when the measure is used to generate the reliability targets in the next period. This allows the impacts of the opex and capex programs to generate the improved reliability in the next period, enhancing the likelihood that a STPIS bonus will be generated.

---

14 AER, *STPIS v2.0*, November 2018, cl. 3.2.1(a)(1A).

15 Powercor, *Regulatory Proposal 2021–26,* January 2020, pp. 149-150. AER, Information request Powercor IR#005 - PAL MOD 10.11 - Incentives - Jan2020 - Public (updated 02042020); PAL MOD 10.12 - Targets - Jan2020 - Public (updated 02042020), 3 April 2020.

16 AER, *Distribution Reliability Measures Guideline*, November 2018, pp. 7–8.

17 Victorian Community Organisation, *2021–26 Victorian EDPR Joint submission from Victorian community organisations – summary document*, May 2020, p. 71.

- To overcome this shortcoming, the sponsors consider that the STPIS targets should be refined on an annual basis (just like the EBSS operates) so that the targets are set on a continuing basis. This can be readily achieved so that the STPIS targets in any one year are based on the average of the previous 3- or 4-year actual outcomes on a rolling basis.

- As with the CESS, constraining the STPIS to a single regulatory period is generating a bias in the distributors gaining a benefit under the STPIS at the expense of consumers.

We would like to clarify that the purpose of STPIS is to ensure that distributors' cost reduction attempts are effective and not at the expense of reliability of supply to customers. A distributor can only keep its reward under STPIS if the reliability improvement is retained in subsequent regulatory control periods. If the improvement is not maintained, the distributor will need to return the earlier reward to the customers.

Hence, a distributor can only earn a reliability improvement result once. The customers, however, receive ongoing benefits from the earlier improvement because the performance targets become tighter in future.

We believe that modifications to how to replicate the above effect would not change materially if the performance targets are recalculated on a moving average method. This is because it will take ten years to account for all the outcomes of a regulatory control period for both the moving average method and the five-year average of the previous period method—in other words, the performance outcome of the last year of one period will be included in the performance target of the last year of the ensuring period. In addition, to implement such change, we will need to completely redesign the scheme, including the setting method of the incentive rate—in order to achieve a balanced incentive to take into account the effect on EBSS and CESS. We also note the description of EBSS does not reflect how the EBSS actually operates.

We welcome submissions in this regard when we review the STPIS next time. However, we cannot modify the scheme in a distribution determination.

Further, under the NER our capex and opex forecasts are intended to enable a prudent and efficient distributor to maintain the existing supply reliability, but not for the improvement of reliability. The mechanics of our capex and opex forecasts are detailed in the Attachment 5 – Capital expenditure and Attachment 6 – Operating expenditure of this draft decision.

The Victorian Community Organisations also commented on the customer's willingness to pay to maintain/improve reliability. As we are applying the latest VCR published by our December 2019 study, we consider that the effect of the scheme should be reflective of customers' values of supply reliability.

Energy Consumers Australia submitted that:[18]

> 'REFCL [rapid earth fault current limiters] is impacting negatively on reliability in some areas of the network. Powercor is seeking $13m to fund ACRs [automatic circuit reclosers] to restore reliability to normal levels. Have these poorer reliability outcomes been reflected in STPIS outcomes? We would expect STPIS targets to be set to take account of the expected reliability improvement to ensure that customers do not pay twice - once for capex to fix the problem, and again when performance improves under the STPIS'.

Our annual S-factor assessment captures all reliability outcomes, including the impacts caused by REFCL.[19] Given that the proposed fund for ACRs is to restore reliability to normal levels, instead of improving the reliability of supply, there is no adjustment made to the performance targets, consistent with STPIS 2.0.

10.4.3 Customer service component

The STPIS customer service target applicable to Powercor is telephone response measured as the number of telephone calls answered within 30 seconds. The revenue at risk for the customer service component is ± 0.5 per cent.

The STPIS customer service target will apply to Powercor in the next regulatory control period because its revenue proposal did not apply to use the Customer Service Incentive Scheme (CSIS). Should Powercor seek to have CSIS in the revised proposal we will reconsider our position on the application of the call centre component.

We received a submission from the AER's Consumer Challenge Panel (CCP17) acknowledging the importance of telephone answering as an important service for many consumers. We agree with the CCP17 and consider that Powercor should continue to report on the telephone answering parameter in the next regulatory control period.[20]

We note the CCP17's submission that the combined schemes (STPIS and CSIS) may be 'double counting' the impact of unplanned outages. We will explore this issue when we next review the scheme.

10.4.4 Incentive rates

The incentive rates applicable to Powercor for the reliability of supply performance parameters of the STPIS have been calculated in accordance with clause 3.2.2, using

---

[18] Energy Consumers Australia, *Submission on the Victorian Electricity Distribution Regulatory Proposal 2021–26,* June 2020, p. 17.

[19] As required by the scheme, the s-factor annual assessment excludes certain events from the calculation of the s-factor revenue adjustment under the criteria of exclusions and MED.

[20] AER Consumer Challenge Panel, *CCP17 Advice to the AER on the Victorian Electricity Distributors' Regulatory Proposals for the Regulatory Determination 2021–26*, 10 June 2020, p. 36.

the formulae provided as appendix B of the STPIS 2.0 and our VCR published in December 2019.[21]

Our draft decision on Powercor's incentive rates are at Table 10.1.

10.4.5 Value of customer reliability to calculate the incentive rates

Our F&A stated that we will apply the latest VCR through the distribution determination in calculating Powercor's incentive rates.[22] Hence, for this draft decision, we have calculated Powercor's incentive rates by using our Values of Customer Reliability Review published in December 2019.[23]

The VCR for network segments outlined in Table 10.3 were applied to calculate Powercor's incentives rates for the 2021–26 regulatory control period.

Table 10.3 Value of customer reliability ($/MWh)

	Urban	Rural short	Rural long
VCR	41,210	41,210	41,210

Source: AER, *Value of customer reliability review, final report*, December 2019, pp. 17 and 71.

10.5 Transitional arrangements for the STPIS

This section addresses the following transitional issues relating to the STPIS and how we intend to adjust the S-factor between regulatory control periods under STPIS 2.0.

The STPIS operates as part of the building block determination and is applied via the control mechanism. Through the S-factor component of the STPIS, distributors are penalised or rewarded for diminished or improved service performance compared to predetermined targets. Distributors are either rewarded or penalised via network charges two years after the end of each regulatory control year because audited performance data is only available after the regulatory year is completed—hence, the earliest time the S-factor can apply is the year following audited performance data availability.

Consequently, the S-factor outcomes for 2019 and 2020 will apply to prices in the 2021–22 and 2022–23 regulatory control years respectively.

A key amendment under STPIS 2.0 is to simplify the scheme by specifying STPIS outcomes as a fixed monetary amount, rather than as a percentage adjustment to the

---

21 AER, *STPIS v2.0*, November 2018.

22 AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

23 AER, *Values of Customer Reliability Review - Final Report*, December 2019.

maximum allowable revenue as set out in STPIS 2.0 Appendix C.[24] This appendix also sets out the S-factor calculation formula and the operation of the S-bank mechanism under this approach.

To transition to STPIS 2.0, Powercor's S-factor outcomes for 2019, 2020 and the determination extension period will be converted to a dollar value before being applied in the price control formula in the next regulatory control period. Please refer to Attachment 14 – Control mechanisms of the draft decision for details.

We have consulted with Victorian distributors on our proposed transition to STPIS 2.0.[25] We considered, as a principle, the STPIS revenue should be neutral under either STPIS 1.0 or STPIS 2.0. Nonetheless, an earlier transition to STPIS 2.0 will be likely to provide more clarity and certainty. Victorian distributors did not raise an objection to our proposal.

---

[24] AER, STPIS 2.0, *Appendix C - Adjustments to allowed revenue*, November 2018.

[25] AER, *Email to regulatory managers - Communication with Victorian distributors regarding the application of 2019 STPIS outcomes to the 2021–22 pricing proposals, 17, 29 June, 2020.*

Shortened forms

Shortened form	Extended form
ACR	Automatic circuit reclosers
AER	Australian Energy Regulator
capex	capital expenditure
CCP17	AER's Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CSIS	customer service incentive scheme
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
MAIFI	momentary average interruption frequency index
MED	major event day
NER	national electricity rules
opex	operating expenditure
REFCL	rapid earth fault current limiters
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
VCR	values of customer reliability