



DRAFT DECISION

Endeavour Energy Distribution Determination 2019 to 2024

Attachment 10 Service target performance incentive scheme

November 2018

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Endeavour Energy for the 2019–24 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

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

Contents

Note	10-2
Contents	10-3
Shortened forms	10-4
10 Service target performance incentive scheme	10-5
10.1 Draft decision	10-6
10.2 Endeavour Energy’s proposal	10-7
10.3 AER’s assessment approach.....	10-7
10.3.1 Interrelationships.....	10-8
10.4 Reasons for draft decision.....	10-8
10.4.1 Revenue at risk	10-9
10.4.2 Reliability of supply component	10-9
10.4.3 Customer service component	10-11
10.4.4 Value of customer reliability to calculate the incentive rates	10-11
10.4.5 Incentive rates	10-11

Shortened forms

Shortened form	Extended form
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP10	Consumer Challenge Panel (subpanel 10)
CESS	capital expenditure sharing scheme
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
NER	national electricity rules
opex	operating expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
VCR	value of customer reliability

10 Service target performance incentive scheme

Under clauses 6.3.2(3) 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 how we will apply the STPIS to Endeavour Energy (Endeavour) for the 2019–24 regulatory control period.

AER's service target performance incentive scheme

We published the current version of our national STPIS in November 2009.¹ 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.

AER framework and approach (F&A) to the application of STPIS

In the final F&A, we stated that we will continue to apply the distribution STPIS to Endeavour in the next regulatory control period. We proposed to:

- set revenue at risk at ± 5 per cent
- segment the network according to the CBD, urban, short rural and long rural feeder categories as applicable
- apply the system average interruption duration index or SAIDI, system average interruption frequency index or SAIFI and customer service (telephone answering) parameters
- set performance targets based on Endeavour'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 value of customer reliability (VCR) values as indicated in AEMO's 2014 Value of Customer Reliability Review final report.²

Our F&A also stated that the:

- GSL component will not apply to Endeavour if it remains subject to a jurisdictional GSL scheme.³

¹ AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).

² AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59–65.

- revised STPIS may apply to Endeavour in the next regulatory period if the review of the STPIS is completed on time.⁴

Given that the revised STPIS is not yet complete in time for this draft decision, we will apply the current version of the distribution STPIS (November 2009)⁵ to Endeavour for the 2019–24 regulatory period.

10.1 Draft decision

We will apply the STPIS to Endeavour for the 2019–24 regulatory control period. This is consistent with our F&A position on STPIS and determinations for NSW distributors.

We have taken into account Endeavour's revenue proposal, submissions raised by stakeholders and the F&A in reaching our draft decision.⁶ Our responses to the matters raised by Endeavour and stakeholders about the application of the 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 Endeavour for the 2019–24 regulatory period. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.⁷

Table 10-1 Draft decision—STPIS incentive rates for Endeavour Energy for the 2019–24 regulatory period

	Urban	Short rural
SAIDI	0.0657	0.0123
SAIFI	5.3285	1.4505

Source: AER analysis.

³ AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59-65.

⁴ AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, p. 60.

⁵ AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).

⁶ Endeavour Energy, *Revenue Proposal*, April 2018, pp.93-96; Endeavour Energy, *Revenue Proposal Attachment 10.07: STPIS Proposal and Reliability Licence Conditions Compliance Capex Requirement - 2019-2024 Regulatory Control Period*, March 2018, pp. 4–9; Consumer Challenge Panel (CCP10), *Submission on Ausgrid 2019-24 regulatory proposal*, 8 August 2018, pp. 34-36; AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59-65.

⁷ AER, *STPIS*, November 2009, cl. 5.3.2(a).

Table 10-2 Draft decision—STPIS reliability targets for Endeavour Energy for the 2019–24 regulatory period

	value
Urban	
SAIDI	62.668
SAIFI	0.797
Short rural	
SAIDI	184.799
SAIFI	1.698
Telephone answering	
Percentage of calls will be answered within 30 seconds	80.8%

Source: AER analysis.

10.2 Endeavour Energy’s proposal

Endeavour's revenue proposal accepted our F&A position on how the STPIS will apply.⁸

10.3 AER’s assessment approach

We are required to make a decision on how the STPIS is to apply to Endeavour.⁹ 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.¹⁰

We outlined our proposed approach to, and reasons for, the application of the STPIS in our F&A for Endeavour. Our draft decision has adopted the position in the F&A. We have considered materials submitted to us by Endeavour and by stakeholders.

⁸ Endeavour Energy, *Revenue Proposal*, April 2018, pp.93-96; Endeavour Energy, *Revenue Proposal Attachment 10.07: STPIS Proposal and Reliability Licence Conditions Compliance Capex Requirement - 2019-2024 Regulatory Control Period*, March 2018, pp. 4–9.

⁹ NER, cl. 6.12.1(9).

¹⁰ AER, *STPIS*, November 2009, 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.¹¹ 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 2019–24 regulatory control period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS) and the 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 and operating 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
- reductions 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 in accordance with our F&A paper to Endeavour.¹² The following section sets out our detailed consideration on applying the STPIS to Endeavour for the 2019–24 regulatory control period.

¹¹ NER, cl. 6.6.2(b)(3)(iv).

¹² AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59-65.

10.4.1 Revenue at risk

Endeavour's revenue at risk for each regulatory year of the 2019–24 regulatory control period will be capped at ± 5.0 per cent as per the scheme standard.

CCP10 supports a stronger STPIS option that is a 'strength' of 5 per cent being applied.¹³

Revenue at risk caps the potential reward and penalty for Endeavour under the STPIS. We consider an incentive of ± 5.0 per cent of the annual allowable revenue would result in the right balance with the operation of the EBSS and CESS to ensure that the incentives to reduce costs will not be delivered at the expense of service levels to customers—hence meeting the long term interest of consumers.

10.4.2 Reliability of supply component

Applicable components and parameters

We will apply unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to Endeavour's feeders for the 2019–24 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.

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 Endeavour's underlying STPIS performance.

We accept Endeavour's proposal to calculate major event day (MED) thresholds using Box-Cox transformation as it provides a more normally distributed data set for Endeavour compared to the logarithm transformation under the 2.5 beta method.¹⁴ Our scheme allows an alternative data transformation method which results in a more normally distributed data set in accordance with clause 2.2 and Appendix D of the scheme.¹⁵

We have not received any submissions from stakeholders regarding this issue.

¹³ Consumer Challenge Panel (CCP10), *Submission on Endeavour Energy 2019-24 regulatory proposal*, 8 August 2018, p. 34.

¹⁴ Endeavour Energy, *Revenue Proposal*, April 2018, pp. 93-96; Endeavour Energy, *Revenue Proposal Attachment 10.07: STPIS Proposal and Reliability Licence Conditions Compliance Capex Requirement - 2019-2024 Regulatory Control Period*, March 2018, pp 4-9.

¹⁵ AER, *STPIS*, November 2009.

Performance targets

The STPIS specifies that the performance targets should be based on the average performance over the past five regulatory 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 expected to result in a material improvement in supply reliability.¹⁶

Since Endeavour's capex for the current and next regulatory control period does not contain reliability improvement expenditure, we have not made adjustments to the targets, which are based on the relevant historical average levels for the period.

For this draft decision, we have calculated Endeavour's performance targets to be based on actual performance over the last four regulatory years of 2013–14 to 2016–17. For the final decision, the performance target will be updated to include the last five regulatory years, following the end of the 2017–18 regulatory year.

We received no submissions from stakeholders regarding the application of Endeavour's performance targets.

Our calculated performance targets for Endeavour for the 2019–24 regulatory control period are presented in the table below.

Table 10-3 Draft decision—STPIS reliability targets for Endeavour Energy for the 2019–24 regulatory period

	value
Urban	
SAIDI	62.668
SAIFI	0.797
Short rural	
SAIDI	184.799
SAIFI	1.698
Telephone answering	
Percentage of calls will be answered within 30 seconds	80.8%

Source: AER analysis.

¹⁶ AER, *STPIS*, November 2009, cl. 3.2.1.

10.4.3 Customer service component

The STPIS customer service target applicable to Endeavour is telephone response measured as the number of telephone calls answered within 30 seconds. This measure is referred to as the telephone Grade of Service (GOS).

We received no submissions from stakeholders regarding the application of Endeavour's customer service performance target.

Our calculated telephone answering performance targets for Endeavour for the 2019–24 regulatory control period are presented in Table 10-2.

10.4.4 Value of customer reliability to calculate the incentive rates

Our F&A paper stated that we will apply a latest value for VCR through the distribution determination in calculating Endeavour's incentive rates.¹⁷ Endeavour accepted our position. Endeavour provided forecast energy usage information. Hence, for this draft decision, we have calculated Endeavour's incentive rates by deriving it from its consumption data and AEMO's published aggregate VCR value for NSW.

The VCR for network segments is outlined in the table below. We have applied this VCR to calculate its incentives rates for 2019–24.

Table 10-4 Value of customer reliability (\$/MWh)

	Urban	Short rural
VCR ^a	38,350	38,350

Source: AER analysis, and AEMO, *Value of customer reliability review, final report*, September 2014, p. 30.

^a The VCR values shown are at 2014 dollar value. They will be escalated to the June 2019 dollar value in the final decision.

10.4.5 Incentive rates

The incentive rates applicable to Endeavour for the reliability of supply performance parameters of the STPIS have been calculated in accordance with clause 3.2.2 and using the formulae provided as appendix B of the National STPIS. Our draft decision on Endeavour's incentive rates are in the table below. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.¹⁸

¹⁷ AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59–65.

¹⁸ AER, *STPIS*, November 2009, cl. 5.3.2(a).

Table 10-5 Draft decision—STPIS incentive rates for Endeavour Energy for the 2019–24 regulatory period

	Urban	Short rural
SAIDI	0.0657	0.0123
SAIFI	5.3285	1.4505

Source: AER analysis.