FINAL DECISION
Ausgrid distribution determination 2015–16 to 2018–19

Attachment 11 – Service target performance incentive scheme

April 2015

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444
Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

AER reference: 52294

Note

This attachment forms part of the AER's final decision on Ausgrid's revenue proposal 2015–19. It should be read with other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Annual revenue requirement

Attachment 2 - Regulatory asset base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

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Attachment 20 - Analysis of financial viability

Contents

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	expenditure forecast assessment Guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model

RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

11 Service target performance incentive scheme

The national Service Target Performance Incentive Scheme (STPIS) is intended to balance the 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.[1]

The STPIS establishes targets based on historical performance, and provides financial rewards for distributors exceeding performance targets and financial penalties for distributors failing to meet targets. These rewards and penalties are calculated by taking into account the value of customer reliability (VCR). This aligns the distributors' incentives with the long term interests of consumer, which is consistent with the National Electricity Objective (NEO).

The STPIS has two components, the s-factor component and the guaranteed service levels (GSL) scheme. The s-factor component adjusts the revenue that a distributor earns depending on reliability of supply and customer service performance. The GSL scheme sets threshold levels of service for distributors to achieve and requires direct payment to customers who experience service levels below those at the predetermined level.

While the regulatory regime as a whole encourages a business to improve its operating and capital efficiency, the STPIS is designed to ensure that this increase in efficiency is not at the expense of deterioration in service performance for customers. Further, the STPIS is designed to encourage a business to improve its service performance where customers are willing to pay for these improvements. The STPIS plays an important part in balancing the incentives on regulated businesses to ensure outcomes are consistent with the NEO of the National Electricity Law (NEL), in terms of efficient price and non-price outcomes for the long-term benefit of users.[2]

11.1 Final decision

We do not accept Ausgrid's proposal that the application of the STPIS should be dependent on whether we accept its revised opex and capex proposals. Our approved expenditure forecasts in the final decision reasonably reflect the capex and opex criteria, and provide a sufficient amount for a prudent Ausgrid incurring efficient costs to maintain reliability.

The STPIS will provide an incentive for Ausgrid to maintain its current levels of reliability or to improve them where customers are willing to pay for these

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

2 AER, *Electricity distribution STPIS*, Nov 2009, p. 3

improvements. The STPIS balances the incentive in the regulatory framework for distributors to reduce costs at the expense of service performance.

Consistent with our draft decision, we will apply the s-factor component of our national STPIS to Ausgrid for the 2015–19 regulatory control period.[3] We will not apply the GSL component to Ausgrid as the existing NSW jurisdictional GSL arrangements will continue to apply.

In the draft decision, we accepted Ausgrid's proposal that:

- the revenue at risk for each regulatory year of the 2015–19 regulatory control period will be capped at ±2.5 per cent. Within this there will be a cap of ±2.25 per cent for the reliability of supply component and a cap of ±0.25 per cent for the customer service component
- to apply the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) of the reliability of supply component of the STPIS and use 2.5 beta method to derive the major event day thresholds (MED), and
- to apply a performance target that 75 per cent of calls will be answered within 30 seconds and an incentive rate of –0.04 per cent per unit of the telephone answering parameter.

Ausgrid did not propose alternatives in the revised proposal, and we maintain this position in this final decision.[4]

In the draft decision, we applied trend analysis to set Ausgrid's performance targets for reliability of supply component as it would account for its reliability improvement expenditure in the previous regulatory period. Ausgrid accepted this method and updated the performance targets using actual 2013/14 reliability performance data in its revised proposal.[5] We accept this approach and Table 11-1 sets out our final decision on Ausgrid's performance targets for reliability of supply component.

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3 AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014.

4 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, pp. 1-9.

5 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, p. 5.

Table 11-1 The proposed performance targets for Ausgrid's reliability of supply component

Year	2015/16	2016/17	2017/18	2018/19
Unplanned SAIDI				
CBD	16.58	16.58	16.58	16.58
Urban	62.41	62.41	62.41	62.41
Short rural	157.28	157.28	157.28	157.28
Long rural	436.53	436.53	436.53	436.53
Unplanned SAIFI				
CBD	0.054	0.054	0.054	0.054
Urban	0.674	0.674	0.674	0.674
Short rural	1.426	1.426	1.426	1.426
Long rural	3.088	3.088	3.088	3.088

Source: Ausgrid, *Revised Regulatory Proposal and Preliminary Submission 1 July 2014 – 30 June 2019*, 20 January 2015, p. 57 and AER analysis.

We applied the September 2014 AEMO VCR for NSW instead of the VCR prescribed in clause 3.2.2 of the STPIS for the reliability of service component in the draft decision. We considered the most recent VCR better reflects the value customers currently attribute to reliability.[6] Ausgrid accepted this new AEMO VCR in the revised proposal. However, it noted the September 2014 VCR should be indexed to July 2015, consistent with the approach set out in the STPIS.[7] We accept that the AEMO VCR should be indexed to the start of the regulatory control period by applying the appropriate CPI adjustment. We have also amended the VCR for NSW CBD feeder type, so it is based on energy consumption by user types as set out in the AEMO's VCR application guide. Table 11-2 below presents our calculated incentive rates to apply to Ausgrid's SAIDI and SAIFI targets.

6 AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014, p. 13.

7 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, pp. 6–7.

Table 11-2 The proposed incentive rates on Ausgrid's reliability of supply targets

Network type	CBD	Urban	Short rural	Long rural
Unplanned SAIDI	0.0058	0.0469	0.0063	0.0001
Unplanned SAIFI	1.5825	4.4805	0.7588	0.0087

Source: AER analysis.

11.2 Ausgrid's revised proposal

Ausgrid accepted the inclusion of a STPIS subject to the expenditure forecasts in its revised proposal being accepted. It noted that if the AER does not accept Ausgrid's revised forecasts for operating and capital expenditure, then it proposed that no STPIS should apply to the 2015–19 regulatory control period.[8]

Ausgrid also accepted:[9]

- the methodology proposed by the AER in the Draft Decision in adjusting Ausgrid's reliability of supply performance targets and used actual 2013/14 data to update the performance targets
- the use of new AEMO VCR to calculate the incentive rates for reliability of supply parameters. However, it suggested applying CPI adjustment to July 2015 as this indexing approach is consistent with the STPIS Guideline
- the performance target and the incentive rate for telephone answering parameter.

11.3 AER's assessment approach

We have outlined our assessment approach to the application of the STPIS in the draft decision:[10]

- clause 6.6.2 of the NER describes the consultative process that we must apply in developing and publishing the STPIS
- clause 6.12.1 (9) of the NER requires us to make a decision on how the STPIS is to apply to the relevant distributor in the Distribution Determination, and
- the STPIS Guideline outlines the process to be applied in determining performance targets under the STPIS, incentive rates and the MED thresholds.[11]

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8 Ausgrid, *Revised Regulatory Proposal and Preliminary Submission 1 July 2014 – 30 June 2019*, 20 January 2015, p. 55

9 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, pp. 4–8.

10 AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014.

11 AER, *Electricity distribution STPIS*, Nov 2009.

We have assessed Ausgrid's STPIS proposal according to the NER and the Guideline outlined above. When alternatives are presented which warrant a reconsideration of this approach, we have considered the relative merits of the alternative against the objectives of the STPIS.

11.3.1 Interrelationships

In applying the STPIS we must consider any other incentives available to the distributor under the NER or relevant distribution determination.[12] One of the objectives of the STPIS is to ensure that the incentives under the scheme are sufficient to offset any other incentives the distributor may have to reduce costs at the expense of service levels.[13] For the 2015–19 regulatory control period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS).[14] For this period we will not subject any expenditure to the efficiency benefit sharing scheme (EBSS) which applies to opex, as we have used an alternative opex forecast rather than Ausgrid's revealed costs. This is explained further in the EBSS appendix (see attachment 9).

The CESS rewards distributors who pursue efficiency improvements in capex to the benefit of both distributors and network users. In setting the STPIS performance targets, we will consider both completed and planned reliability improvements expected to materially affect network reliability performance.[15] By setting the performance targets in such a way, any incentive a distributor may have to reduce the capex at the expense of target service levels should be curtailed by the STPIS financial penalties.

Contrary to Ausgrid's submissions, our approved capex and opex forecasts in the final decision are sufficient to allow a prudent and efficient Ausgrid, facing a realistic expectation of the demand forecast and cost inputs, to maintain reliability at the current level (see attachment 6, section 6.4 and attachment 7, appendix A). This is discussed in more detail in section 11.4.1.

11.4 Reasons for final decision

The following section sets out our reasons for our final decision.

11.4.1 Application of STPIS

We do not accept Ausgrid's proposal that the application of the STPIS should be dependent on whether we accept its revised opex and capex proposals. Our approved capex and opex forecasts in the final decisions are sufficient to allow Ausgrid to maintain its current levels of reliability (see sections 6.4 and appendix A of attachment

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

13 AER, STPIS, cl. 1.5(b)(5).

14 The Efficiency Benefit Sharing Scheme will not operate for the 2015–19 regulatory control period.

15 Included in the distributor's approved forecast capex for the subsequent period.

7). We note that Ausgrid has been delivering performance levels higher than the minimum standards it is required to achieve under its licence obligations.

In arriving at our capex allowance, we have considered the interaction between the removal of the N-1 deterministic design planning standards imposed by the NSW Government in the previous regulatory control period, the minimum reliability standards and the historical reliability that Ausgrid has been achieving. In its revised proposal, Ausgrid has clarified that the expenditure is required to address compliance issues related to the Schedule 3 licence conditions in the revised proposal. Accordingly we accept Ausgrid's revised proposal in respect of the forecast reliability capex. We have provided sufficient revenue to allow Ausgrid acting prudently and efficiently to maintain its current reliability level with our approved capex forecast. In addition, as the current reliability level is higher than the minimum reliability standards, Ausgrid will also be able to meet, and indeed exceed, the jurisdictional minimum standard (see section 6.4).

Our benchmarking opex approach considers the reliability of the networks by incorporating it as an output in our opex Multilateral Partial Factor Productivity (MPFP) benchmarking. We found most networks have a level of reliability that is close to their expected level given their customer density, as reflected by the reliability scores being close to the trend line. Given this, our benchmarking indicates that a prudent and efficient Ausgrid facing a realistic expectation of the demand forecast and cost inputs should be able to deliver Ausgrid's current levels of reliability for less opex. Based on our benchmarking analysis, we consider that our approved opex forecast for Ausgrid is consistent with the targets that we have set for the STPIS in this period. Our forecast opex is also sufficient to allow a prudent and efficient Ausgrid facing a realistic expectation of the demand forecast and cost inputs to maintain reliability at the current level (see appendix A of attachment 7).

In addition, we consider that a distributor's reliability performance is influenced by the configuration and condition of its network assets. This is a result of the distributor's historical investment and operating practices. Most network assets have an expected life in excess of 50 years, therefore, by discounting for uncontrollable external impacts such as weather variations, the distributor's reliability level should not change abruptly.

There is also the potential for performance improvements to lag behind the completion of capex projects. As we explain in section 11.4.4, we are uncertain of the extent and time lag between the completion of new projects and any potential improvement in performance. Therefore we have not applied any lagged effects in our analysis as there is uncertainty as to what Ausgrid's past expenditure may ultimately deliver in terms of supply reliability in the 2015–19 regulatory control period.

In recognition of all these factors, we consider it is reasonable to apply a lower revenue at risk and lower incentive rates to reduce the risk to consumers and Ausgrid.

11.4.2 Applicable components and parameters

In both the Stage two F&A and the draft decision, we noted that:[16]

- performance targets would be set for both SAIDI and SAIFI under the reliability of supply component, with financial incentives attached to each.
- Ausgrid's network would be divided into four feeder types (CBD, urban, short rural and long rural).
- we would apply the telephone answering parameter under the customer service component to the Ausgrid in the 2015–19 regulatory control period.
- we would not apply the GSL component of the STPIS to Ausgrid while the jurisdictional GSL scheme remains in place.

We did not receive any submissions objecting our draft and F&A positions in relation to these issue and we will not depart from the above position in this final decision.

11.4.3 Revenue at risk

Revenue at risk caps the potential rewards and penalties that Ausgrid would receive under the scheme. The STPIS allows us to vary the revenue at risk where this would satisfy the objectives of the scheme. In setting the revenue at risk, we must take into account the benefits to consumers that are likely to result from the scheme, and in particular, that the benefits are sufficient to warrant any reward or penalty under the scheme for the distributors.

Ausgrid proposed to apply a revenue at risk of ±2.5 per cent. Within this there will be a cap of ±2.25 per cent for the reliability of supply component and ±0.25 per cent for the customer service component.[17] We accepted Ausgrid's proposal in the draft decision. We considered this lower powered incentive would balance the risk to both consumers and Ausgrid and thus better meet the objectives of the STPIS.[18] Ausgrid did not propose alternative revenue at risk in the revised proposal, therefore we maintain this view in this final decision.[19]

The Energy Users Association of Australia (EUAA) recommended that we should apply an asymmetrical incentive of +1 per cent to -3 per cent. It considered such asymmetrical incentive is needed to take account of the networks' excess capacity and would more appropriately balance the risks to both consumers and the distributors.[20]

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16 AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014, pp. 18–19; AER, *Stage 2 framework and approach Ausgrid, Endeavour Energy and Essential Energy*, January 2014, pp. 14–15.

17 Ausgrid, *Attachment 3.02 – proposed application of STPIS for the 2014–19 period*, May 2014, p. 1.

18 AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014, pp. 19–20.

19 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, pp. 1–2.

20 EUAA, *Submission AER 2015-19 draft revenue decision and NSW DNSPs' revenue proposals*, 13 February 2015, p. 50.

We note the s-factor component in the STPIS scheme specifies a symmetrical incentive framework.[21] Hence, we cannot apply an asymmetrical incentive under the current scheme. When we next review the design of STPIS, we shall also review this aspect of the scheme design.

11.4.4 Reliability of supply component

We will apply unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to Ausgrid for the 2015–19 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.

Major Event Day exclusions

The STPIS allows certain events to be excluded from the calculation of the s-factor revenue adjustment. These exclusions include the events that are beyond the control of Ausgrid, 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 Ausgrid's STPIS performance.

We accepted Ausgrid's proposal to calculate MED thresholds using 2.5 beta method in accordance with appendix D of the STPIS in the draft decision. Ausgrid did not propose an alternative method in the revised proposal, therefore we maintain this view in this final decision.[22] Table 11-3 sets out our calculated MED thresholds calculated in accordance with Appendix D of the STPIS.

Table 11-3 MED thresholds (T_{MED}) for Ausgrid

Regulatory year	T_{MED}
2009/10	3.745
2010/11	3.345
2011/12	3.181

[21] Our *final decision electricity distribution network service providers service target performance incentive scheme, June 2008*, explained that a symmetrical scheme provides the incentive for distributors to maintain and improve service performance [p. 9]; and, in practice this means that where a distributor's actual cost of undertaking works to improve service performance is less than the reward provided through the scheme the distributor has an incentive to carry out the works and achieve the desired performance level. In this way the scheme can act as an additional cost-recovery mechanism for service performance improvements, where these improvements are over and above those being funded through the revenue allowed in a distribution determination. As the scheme is symmetrical, that is penalties are accrued at the same rate as rewards, there is also an incentive under the scheme for a distributor to maintain its service performance [p. 6].

[22] Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, p. 4.

2012/13	2.714
2013/14	2.600

Source: Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, p. 4 and AER analysis

Performance targets

Clause 3.2.1(a) of the STPIS states that performance targets for the reliability of supply parameters must be established with reference to average historical performance modified to account for completed or planned reliability improvements and any other factor expected to materially affect network reliability performance.

Ausgrid is required to meet the minimum network overall reliability standards prescribed in schedule 2 of the NSW licence conditions for electricity distributors.[23] We noted Ausgrid's current performance level is better than these prescribed minimum requirement. The NSW licence conditions indicate that the distributor has discretion to plan its investment for compliance with these licence conditions to suit its individual circumstances if it is economically efficient to do so.[24]

In the draft decision, we proposed to use historical data for the 2009–10 to 2013–14 regulatory years as the base to forecast service performance and adjusted for the results of completed and planned reliability improvement. We noted a key driver of the Ausgrid's expenditure in the 2009–14 regulatory control period was to augment their networks to meet the previous N-1 deterministic planning standard. Ausgrid reported it has spent a total of $1.7–2.1 billion to improve security and reliability of its network during the 2009–14 regulatory control period.

The application of our STPIS from 2015–16 onwards will ensure that past capital expenditure that resulted in reliability improvements are retained because customers are paying for such historical investment on an ongoing manner. In the absence of reliable expenditure data associated with reliability improvement and a robust method that can precisely quantify the impacts of such investment, we considered it is reasonable to examine Ausgrid's observed historical reliability performance and modify the performance targets based on the observed trends.

We used Ausgrid's system SAIDI and SAIFI trends to form the basis of our adjustment in the draft decision. This allowed us to apply modest adjustments to Ausgrid's performance targets across all feeder types. [25] Ausgrid accepted this method and updated its performance targets in the revised proposal based on the actual data for

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[23] *Reliability and performance licence conditions for electricity distributors – the Hon Anthony Roberts MP Minster for Resources & Energy*, 1 July 2014.

[24] *Reliability and performance licence conditions for electricity distributors explanatory note*, Commencement date 1 July 2014, p. 3.

[25] AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014, pp. 22–32.

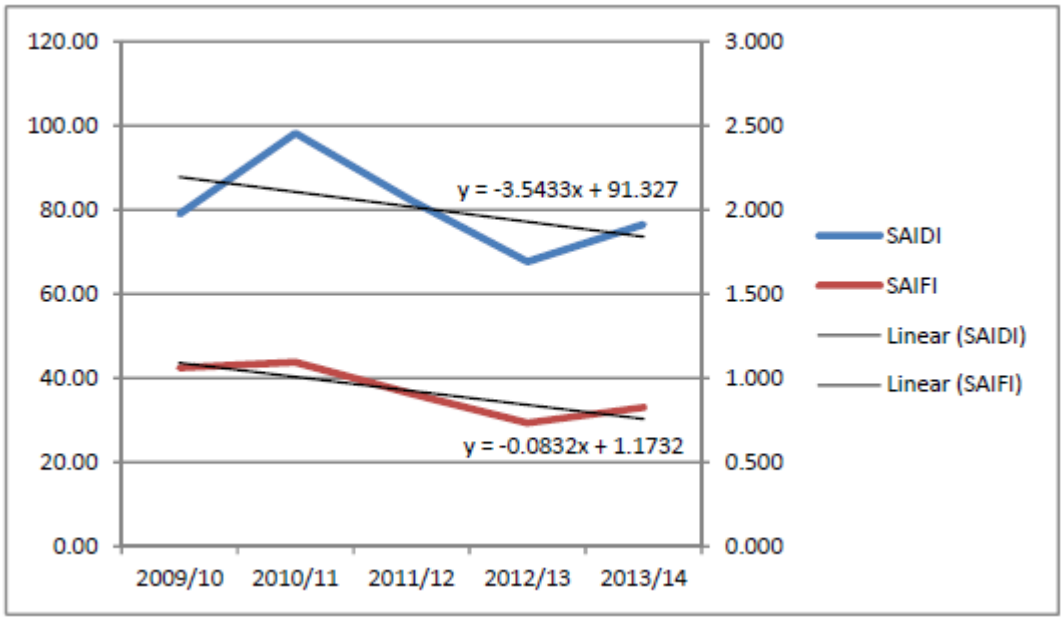
the 2013/14 financial year.[26] The Consumer Challenge Panel (CCP) and the EUAA agreed with our approach of setting the improved performance targets. They consider these adjustments are reasonable and will enable the benefits of the reliability improvement resulting from past capital expenditures to be retained.[27]

We have revised our own analysis using Ausgrid's actual 2013/14 data and accepted Ausgrid's proposed adjustment in the revised proposal (see Figure 11-1):

- the system SAIDI at the end of the trend line is 73.61, which is 8.78 per cent lower than the average system SAIDI over the past five regulatory years. Therefore, we have applied 8.78 per cent reduction to the average unplanned SAIDI targets for each of Ausgrid's feeder types.
- the system SAIFI at the end of the trend line is 0.757, which is 18.02 per cent lower than the average system SAIFI over the past five regulatory years. As a result, we have applied 18.02 per cent reduction to the average unplanned SAIFI targets for each of Ausgrid's feeder types

Table 11-4 sets out our proposed unplanned SAIDI and SAIFI targets for Ausgrid.

Figure 11-1 Ausgrid's historical system unplanned SAIDI and SAIFI and trends



Source: Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, p. 5 and AER analysis.

[26] The AER used an estimate provided by Ausgrid for the 2013/14 financial year as the actual data was not available at the time of the draft decision.

[27] CCP, *Submission to AER responding to NSW draft determinations and revised proposals from electricity distribution networks*, 2 January 2015, p. 54; EUAA, *Submission AER 2015-19 draft revenue decision and NSW DNSPs' revenue proposals*, 13 February 2015, p. 49.

Table 11-4 Performance targets for Ausgrid's reliability of supply component

	Performance target based on five year average	Our proposed performance target	Difference (%)
Unplanned SAIDI			
CBD	18.04	16.58	8.78
Urban	67.89	62.41	8.78
Short rural	171.09	157.28	8.78
Long rural	474.86	436.53	8.78
Unplanned SAIFI			
CBD	0.064	0.054	18.02
Urban	0.795	0.674	18.02
Short rural	1.683	1.426	18.02
Long rural	3.644	3.088	18.02

Source: Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, p. 6 and AER analysis.

Consistent with our draft decision, we consider the adjustments that we made to Ausgrid's performance targets are conservative. We are uncertain of the extent and time lag between the completion of new projects and the measured SAIDI and SAIFI performance. Therefore we have not applied any lagged effects using the trend analysis. Any lagged effect would further reduce the performance targets (ie is more stringent) than we have proposed. Given there is uncertainty of what the N-1 expenditure would deliver in terms of supply reliability in the 2015–19 regulatory control period, we consider it is reasonable to apply a lower revenue at risk and lower incentive rates to reduce the risk to consumers and Ausgrid.

Incentive rates

Clause 6.6.2(b)(3) of the NER stipulates that we must take into account the willingness of the customer to pay for improved service performance when developing and implementing a STPIS. The incentive rates in the STPIS are based on measures of customers willingness to pay for performance, specifically, the value that customers place on supply reliability, referred to as the VCR.

In the draft decision, we noted the AEMO has carried out a review of the VCR and published the final results in September 2014. We proposed to apply the 2014 AEMO NSW VCR to calculate the incentive rates for Ausgrid as it better meets the STPIS

objective.[28] The EUAA agreed with us that the incentive rates under the scheme should be based on the AEMO September 2014 VCR values as they were determined through a robust method and represent the best available information for this purpose.[29]

Ausgrid accepted this new AEMO VCR in the revised proposal. However, it noted the September 2014 VCR should be indexed to July 2015 as it is consistent with the approach set out in the STPIS.[30] We accept that the AEMO VCR should be indexed to the start of the regulatory control period by applying the appropriate CPI adjustment. We consider the reasonable adjustment is nine months (or 75 per cent) of the annual RBA inflation target of 2.5 per cent, which is1.875 per cent. This adjustment is also consistent with the value proposed by Ausgrid.[31]

In the draft decision, we also proposed to use a VCR of $76,700/MWh for CBD feeder type, which was doubling the value for urban and rural customers. This was consistent with the previous VCR values set out in the STPIS. However, we note the AEMO's estimated Commercial VCR is significantly less than the doubling of the NSW state average VCR of 38,350/MWh. We consider a more reflective VCR value for CBD feeders based on energy consumption by user types as set out in the AEMO's VCR application guide should be used. Based on the information submitted by Ausgrid on 27 February 2015, we estimated the VCR for NSW CBD feeder to be $44,170/MWh.

Table 11-2 sets out the incentive rates that will apply to Ausgrid's SAIDI and SAIFI targets calculated based on these revised VCR values.

11.4.5 Customer service component

The telephone answering parameter measures the proportion of calls forwarded to an operator that are answered in 30 seconds. We accepted Ausgrid proposal to set the telephone answering target at 75 per cent in the draft decision. We also accepted Ausgrid's proposed incentive rate for the telephone answering parameter of –0.04 per cent per unit.[32] Ausgrid did not propose alternative values in the revised proposal, therefore we maintain this finding in this final decision.[33]

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28 Note the AEMO NSW VCR represents customers' willingness to pay in both the NSW and the ACT.

29 EUAA, *Submission AER 2015-19 draft revenue decision and NSW DNSPs' revenue proposals*, 13 February 2015, p. 50

30 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, pp. 6–7.

31 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, Appendix 2.

32 AER, *Draft decision attachment 11: Service target performance incentive scheme*, November 2014, pp. 35–37.

33 Ausgrid, *Attachment 3.02 proposed application of STPIS for the 2014–19 regulatory control period*, January 2015, pp. 8–9.