FINAL DECISION

AusNet Services
Distribution Determination
2021 to 2026

Attachment 10
Service target performance incentive scheme

July 2021

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

AER reference: 63599

Amendment table

Update	Date	Page
Revocation and substitution to correct for Beta method error.	9 July 2021	10-4, 10-11

Note

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

The final 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 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment A – Negotiating framework

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 final decision on how we will apply the STPIS version 2.0 to AusNet Services for the 2021–26 regulatory control period.

AER's service target performance incentive scheme

We published the current version (version 2.0) of our national STPIS in November 2018.[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.

Our draft decision on the application of STPIS

Our draft decision for AusNet Services was to apply the STPIS version 2.0.[2]

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

- set revenue at risk at ± 5 per cent
- segment the network according to the urban and short feeder categories
- apply the system average interruption duration index or SAIDI, system average interruption frequency index or SAIFI and 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 control years
- not apply the telephone answering parameter in the STPIS as AusNet Services opted to apply the new Customer Service Incentive Scheme (CSIS)
- apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets and 2.8 beta method to calculate the major event day
- apply the method and values of customer reliability (VCR) as indicated in our Values of Customer Reliability Review published in December 2019[3]

---

1 AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018.

2 AER, *Draft Decision AusNet Services Distribution Determination 2021 to 2026, Attachment 10 Service target performance incentive scheme*, September 2020; AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

- not apply the guaranteed service level (GSL) component of the STIPS, as the Victorian distributors remain subject to a jurisdictional GSL scheme.[4]

10.1 Final decision

Our final decision is to apply the STPIS 2.0 to AusNet Services for the 2021–26 regulatory control period.

We will not apply the STPIS telephone answering target and incentive rate to AusNet Services in the next regulatory control period because the distributor has opted to apply the CSIS. The revenue at risk for the STPIS has also been adjusted to reflect the removal of the telephone answering parameter. That said, AusNet Services will continue to report on the telephone answering parameter in the upcoming regulatory control period via the STPIS.

We have taken into account AusNet Services' revised revenue proposal, submissions raised by stakeholders and our draft decision and the Framework and Approach paper in reaching our final decision.[5] Our response to the matters raised by AusNet Services and stakeholders about the application of STPIS is below.

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

Table 10.1 Final decision – STPIS incentive rates for AusNet Services for the 2021–26 regulatory control period

Incentive rates	Urban	Short rural	Long rural
SAIDI	0.02269	0.02160	0.00924
SAIFI	1.48003	1.40017	0.68878
MAIFI	0.11840	0.11201	0.05510

Source: AER analysis.

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

4 AER. *Draft Decision AusNet Services Distribution Determination 2021 to 2026 Attachment 10 Service target performance incentive scheme, September 2020*; AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

5 AusNet Electricity Services, *Electricity Distribution Price Review 2022–26, Revised Regulatory Proposal,* December 2020, p. 145.

Table 10.2 Final decision—STPIS reliability targets for AusNet Services for the 2021–26 regulatory control period

Performance targets	value
Urban	
SAIDI	87.190
SAIFI	0.891
MAIFI	2.817
Short rural	
SAIDI	195.160
SAIFI	2.007
MAIFI	5.657
Long rural	
SAIDI	293.692
SAIFI	2.628
MAIFI	9.920

Source: AER analysis.

10.2 AusNet Services' revised revenue proposal

AusNet Services' revised revenue proposal accepted our draft decision on how STPIS will apply and also submitted the latest reliability data to be included in this final decision.[6] AusNet Services will apply the CSIS in the next regulatory control period.

10.3 Assessment approach

We are required to make a decision on how the STPIS is to apply to AusNet Services.[7] 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.[8]

We outlined our proposed approach to, and reasons for, the application of the STPIS in our framework and approach and draft decision for AusNet Services. Our final decision

[6] AusNet Electricity Services, *Electricity Distribution Price Review 2022–26 Revised Regulatory Proposal,* December 2020, p. 145.

[7] NER, cl. 6.12.1(9).

[8] AER, *STPIS*, November 2018, cl. 2.1(d).

has adopted the position in the draft decision and have taken into account the materials submitted to us by AusNet Services and stakeholders.

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.[9] 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 the 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 Submissions

The Consumer Challenge Panel, sub-panel 17 (CCP17) supported the introduction of the CSIS for AusNet Services, CitiPower, Powercor and United Energy for the 2021–26 regulatory control period, and Jemena's choice not to adopt a CSIS in that

[9] NER, cl. 6.6.2(b)(3)(iv).

regulatory period.[10] The CCP17 also supported our draft decision on STPIS that AusNet Services should continue to report on the telephone answering parameter in the upcoming regulatory control period for transparency purposes.[11]

As discussed above, AusNet Services will apply the CSIS but is required to report on the telephone answering parameter in the next regulatory control period.

We received submissions about distributors historical under-spend on capex and opex allowances, as well as customers' willingness to pay for reliability improvements.

Red Energy/Lumo Energy submitted that it did not support any of the resubmissions that apply to the incentive schemes other than the CESS and EBSS. It stated that the STPIS is not required to be applied to AusNet Services, because:[12]

> The STPIS was introduced to address the risk that DNSPs would under-spend relative to their benchmark expenditure allowances over the regulatory period improving their profitability at the expense of reliability. In our view, it is not clear that a DNSP would erode the reliability of its network for short term profits. Such a strategy would risk the loss of its license in the long run.

The joint submission from the Victorian Community Organisations stated that:[13]

> In its response to the initial proposals the sponsors, (i.e. Victorian Community Organisations) noted that the current version of the STPIS (version 2.0) has some shortcomings, particularly that
>
> - There was a continual reliability improvement which, because consumers were paying the DBs a bonus, they are effectively paying for improved reliability.
> - There is an unwillingness to pay for increased reliability.
> - The STPIS targets for the next period are based on performance that was achieved well into the past and a rolling average target based on the previous 3-4 years is a better incentive for performance and provides a better outcome for consumers.
>
> The AER draft decision states that the current STPIS (version 2.0) is to be applied to the next regulatory period without change, meaning that the current detriments observed will continue. This is disappointing.
>
> The AER also observes that the unwillingness to pay for increased reliability is addressed within the Value of Customer Reliability (VCR). While the provision

---

[10] CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 96–97.

[11] CCP17, CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26,* January 2021, pp. 96–97.

[12] Red Energy / Lumo Energy, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, pp. 3-4.

[13] Victorian Community Organisation, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26 – Headberry Partners - Report to the Sponsoring Organisations*, January 2021, p. 59.

> of the VCR does provide guidance as to the willingness of consumers to pay it is pointed out that consumers have been quite clear that they do not want to pay at all for improved reliability so the application of the VCR should refer more to the price consumers are prepared to pay for maintaining or avoiding reductions in reliability rather than them paying to further increase reliability.
>
> The AER also commented that it does not consider that there is a relationship between reliability of supply and the development of the opex and capex allowances as any proposal by the DBs to improve reliability has to demonstrate a clear relationship between the cost of the improvement and the change in reliability to be achieved. This is not the point.
>
> The commentary by the sponsors was that the amount of capex and opex do have a relationship with the reliability achieved and if the opex and capex allowance is higher than needed to maintain reliability then there will be improved reliability. Effectively, if reliability is improving over time, then it is because the AER has provided more capex and opex than were needed. This is what is being observed – that reliability is improving implying that the opex and capex allowances are higher than necessary.
>
> With this in mind, the allowances for opex and capex should include recognition of the trend of reliability performance.

We would like to clarify that 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.

More importantly, a distributor can only retain its rewards if it can maintain the reliability improvements on an ongoing basis. Once an improvement is made, the benchmark performance targets will be tightened in future years, resulting in ongoing benefits to consumers; while the business only receives a one-off reward.

Customers will only pay for sustained reliability improvements. One-off improvement will only result in the business receiving a temporary one-off reward. But, the reward will be refunded to customers in future years when performance returns to normal.

Consequently, in conjunction with the CESS and EBSS, the STPIS ensures 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

AusNet Services' revised revenue proposal has not included capex or opex allowances for reliability improvement; therefore no adjustments to its reliability targets are required. Please refer to Attachment 5 – Capital expenditure and Attachment 6 – Operating expenditure of the final decision for further details.

The NER requires that we provide adequate funding for a distributor to maintain its current level of reliability. Any underspend in the past is likely the result of efficiency improvements.

Our VCR survey found that:

- Residential customers continue to value reliability and have a preference to avoid longer outages, and outages which occur at peak times (defined as 7am to 10am and 5pm to 8pm).[14]
- Industrial customers also indicated their value for supply reliability.[15]
- While there is no measure of the willingness to pay for widespread long duration outages that lasted three, six or twelve times longer than a one hour outage, for outages of longer duration, and/or covering wider areas, the VCR could begin to increase again beyond a certain threshold as different types of costs are incurred that would not arise in the surveyed 'standard' localised outages.[16]

The incentive rates under the scheme for the forthcoming regulatory control period are based on the latest VCR survey findings. Hence, we consider that the scheme incentive mechanism is reflective of customers' value in terms of reliability outcomes.

We would not expect that a distributor will allow its reliability level to deteriorate significantly due to the operational and business risks it would face in the long run. In the short term, STPIS off-sets a distributor's attempts to cut cost and reduce service levels by imposing a penalty, operating as an early indicator of business practices.

In the coming months, we will be undertaking a broad review of our incentive schemes and how they are operating. We will look into various issues that have been raised by both consumers and businesses about aspects of individual schemes and their interrelationships. We encourage stakeholders to participate in this process.

10.5 Reasons for final decision

We will apply the STPIS to AusNet Services in accordance with the scheme. This includes using the latest 2019–20 reliability data to calculate AusNet Services' performance targets for the next regulatory control period.

The following section sets out our detailed considerations on applying the STPIS to AusNet Services for the 2021–26 regulatory control period.

---

[14] *AER - Values of Customer Reliability Review – Factsheet,* December 2019.

[15] *AER - Values of Customer Reliability Review – Factsheet,* December 2019. The higher industrial VCR value has driven a small increase in the National Electricity Market (NEM) and state VCR values compared to 2014. This is because proportionally, industrial customers use more energy relative to other customer segments and so, have a greater influence on load weighted VCR numbers.

[16] AER: *Final Conclusions, Widespread and Long Duration Outages - Values of Customer Reliability,* September 2020, p.17

10.5.1 Revenue at risk

We determine that the cap on revenue at risk under the STPIS be reduced to 4.5 per cent from 5 per cent, taking into consideration the application of the CSIS with a revenue at risk of 0.5 per cent. The CSIS is intended to replace the telephone service component of the STPIS, which has a revenue cap of 0.5 per cent. The total revenue placed at risk under both schemes will remain at 5 per cent as per the design of the STPIS. This is consistent with our other determinations for the Victorian distributors. Please see attachment 12 regarding the CSIS.[17]

10.5.2 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 AusNet Services' feeders 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.[18]

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 for the effects of extreme weather events that have the potential to significantly affect AusNet Services' underlying STPIS performance.

AusNet Services' proposed to calculate the major event day threshold using the 2.8 beta method in accordance with our draft decision and the scheme.[19]

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:

---

17 AER. *Draft Decision AusNet Services Distribution Determination 2021 to 2026 Attachment 10 Service target performance incentive scheme*, September 2020; AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p. 76.

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

19 AusNet Electricity Services, *Electricity Distribution Price Review 2022–26 Revised Regulatory Proposal*, December 2020, p. 145.

- 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;[20] and
- where the actual performance outcome exceeds the revenue at risk cap[21]

Our final decision has not included capex for programs to improve reliability, therefore no adjustment to AusNet Services' reliability targets is required.

Our calculated performance targets for AusNet Services for the 2021–26 regulatory control period are presented is in Table 10.2. These performance targets were calculated using historical data as defined under with STPIS 2.0 submitted by AusNet Services in its revenue proposal. Stakeholders should be aware that previously published historical performance data is not comparable with the data submitted by AusNet Services 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 recommended by the Australian Energy Market Commission and feeder definitions.[22]

10.5.3 Customer service component

For the final decision, we will not apply the STPIS telephone answering target and incentive rate to AusNet Services in the next regulatory control period because the distributor has opted to apply the CSIS.

As discussed in the draft decision, we agreed with the submission from the CCP17 acknowledging telephone answering as an important service for many consumers.[23] For the final decision, we consider that AusNet Services should continue to report on the telephone answering parameter in the next regulatory control period.

10.5.4 Incentive rates

The incentive rates applicable to AusNet Services for the reliability of supply performance parameters of the STPIS have been calculated in accordance with clause 3.2.2, using the formulae provided as Appendix B of the STPIS 2.0 and our VCR review published in December 2019.

---

20 AER, , *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0*, November 2018, cl. 3.2.1(a)(1A).

21 AER, , *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0*, November 2018, cl. 3.2.1(a)(1B).

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

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

Our final decision on AusNet Services' incentive rates are at Table 10.1.[24]

10.5.5 Value of customer reliability to calculate the incentive rates

Consistent with our draft decision, we have calculated AusNet Services' incentive rates by using our VCR Review published in December 2019.[25]

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

Table 10.3 Value of customer reliability ($/MWh)

	Urban	Short rural	Long rural
VCR	41,210	41,210	41,210

Source: AER, *Value of customer reliability review, final report*, December 2019, p. 17 and p. 71; VCR values are escalated to the December 2020 quarter.

10.6 Transitional arrangements for the STPIS

This section addresses the 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 maximum allowable revenue as set out in Appendix C.[26] This appendix also sets out the s-factor calculation formula and the operation of the s-bank mechanism under this approach.

---

[24] AER, *Final decision. Electricity distribution network service providers, Service target performance incentive scheme,* November 2009, cl. 5.3.2(a).

[25] AER, *Values of Customer Reliability Review - Final Report*, December 2019.

[26] AER, *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0, Appendix C - Adjustments to allowed revenue*, November 2018.

To transition to STPIS 2.0, AusNet Services' 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 final decision for details.

We have consulted with Victorian distributors on our proposed transition to STPIS 2.0.[27] We consider that, as a principle, the transition should be revenue neutral under either STPIS 1.0 or STPIS 2.0. Nonetheless, an earlier transition to STPIS 2.0 will likely provide more clarity and certainty. Victorian distributors did not raise an objection to our proposed methodology.

11 Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	capital expenditure
CCP17	Consumer Challenge Panel, sub-panel 17
CESS	capital expenditure sharing scheme
CSIS	Customer Service Incentive Scheme
DB	distribution network service provider
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
GSL	guaranteed service levels
MAIFI	Momentary Average Interruption Frequency Index
NEM	National Electricity Market
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	values of customer reliability