



FINAL DECISION
Ausgrid
Distribution Determination

2019 to 2024

Attachment 10
Service target performance
incentive scheme

April 2019

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Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Ausgrid for the 2019–2024 regulatory control period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The attachments have been numbered consistently with the equivalent attachments to our longer draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 15 – Alternative control services

Attachment 18 – Tariff structure statement

Attachment A – Negotiating framework

Attachment B – Pricing methodology

Contents

Note	10-2
Contents	10-3
Shortened forms	10-4
10 Service target performance incentive scheme	10-5
10.1 Final decision	10-6
10.2 Our draft decision	10-8
10.3 Ausgrid’s revised proposal	10-8
10.4 AER’s assessment approach	10-9
10.5 Reasons for final decision	10-9

Shortened forms

Shortened form	Extended form
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP10	Consumer Challenge Panel, sub-panel 10
CESS	capital expenditure sharing scheme
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
MAR	maximum allowable revenue
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 and 6.12.1(9) of the National Electricity Rules (NER) our regulatory determination must specify how any applicable distribution service target performance incentive scheme (STPIS) is to apply in the next regulatory control period.

This attachment sets out how we will apply the distribution STPIS to Ausgrid for the 2019–24 regulatory control period.

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.

We published the current version of our national STPIS, STPIS 2.0, in November 2018.¹ In the STPIS 2.0, among other changes, the AER has adjusted the STPIS formula to better balance the weights given to the frequency and duration of supply interruptions. The modified STPIS will increase the incentive for distributors to reduce the average duration of supply interruptions for all customers, while keeping the number of outages at low levels.

Key amendments in the STPIS 2.0 include the following:

- changing the weighting ratio (w) for the STPIS incentive rates to 1.5 for all network segments²
- simplifying the scheme by specifying STPIS outcomes as a fixed monetary amount, rather than as a percentage adjustment to the maximum allowable revenue (MAR)
- changing the threshold for momentary interruption from less than 1 minute to less than 3 minutes.

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 Ausgrid in the next regulatory control period.³

Our F&A also stated that the revised STPIS may apply to Ausgrid in the next regulatory period if the review of the STPIS is completed on time.⁴

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

² AER, *STPIS*, November 2018, clause 3.2.2, table 1, p. 12.

³ 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.

10.1 Final decision

Based on Ausgrid's revised proposal and stakeholders' submissions, we will apply STPIS version 2.0 (November 2018)⁵ to Ausgrid and other ACT/NSW distributors for the 2019–24 regulatory period in the following manner:

- set revenue at risk at the range ± 5.0 per cent
- segment the network according to CBD, urban, short rural and long rural feeder categories as applicable
- apply the system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI) and customer service (telephone answering) parameters
- set performance targets based on Ausgrid'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 report⁶
- not apply the guaranteed service level (GSL) of the STPIS as Ausgrid is subject to a jurisdictional GSL scheme.

In making our final decision on STPIS, we have taken into account our draft decision, Ausgrid's regulatory and revised regulatory proposals and submissions raised by stakeholders.⁷ Our response to the matters raised by Ausgrid and stakeholders about the application of the STPIS are discussed in section 10.5.

Table 10.1 and Table 10.2 present our final decision on the applicable incentive rates and targets that will be applied to Ausgrid's STPIS 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.⁸

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, *STPIS*, November 2018.

⁶ Australian Energy Market Operator, *Value of customer reliability review—final report*, September 2014.

⁷ Ausgrid, *Revised regulatory proposal 2019–24*, January 2019, pp. 398–404; Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, January 2019, pp. 10–18; Ausgrid, *Revenue Proposal Attachment 9.03: GHD Back-Cast Audit*, January 2019, pp. 10–18; Consumer Challenge Panel (CCP10), *Response to the Ausgrid revised regulatory proposal 2019–24 and AER draft determination*, January 2019, p. 44; 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.

⁸ AER, *STPIS*, November 2018, cl. 5.3.2(a).

Table 10.1 Final decision—STPIS incentive rates for Ausgrid for the 2019–24 regulatory period

	CBD	Urban	Short rural	Long rural
SAIDI	0.0073	0.0603	0.0076	0.0001
SAIFI	1.1561	3.9915	0.5702	0.0129

Source: AER analysis.

Table 10.2 Final decision—STPIS reliability targets for Ausgrid for the 2019–24 regulatory period

	value
CBD	
SAIDI	9.092
SAIFI	0.038
Urban	
SAIDI	59.913
SAIFI	0.603
Short rural	
SAIDI	127.959
SAIFI	1.139
Long rural	
SAIDI	496.119
SAIFI	2.481
Telephone answering	
Percentage of calls will be answered within 30 seconds	81.5%

Source: AER analysis.

10.2 Our draft decision

We applied the earlier version of the distribution STPIS (November 2009)⁹ to Ausgrid for the 2019–24 regulatory period, given that the revised STPIS (November 2018) was not yet complete in time for the draft decision.

Our draft decision for Ausgrid applied the national STPIS to the distributor except for the GSL component. It also applied the revised values for VCR in calculating the incentive rates for the Ausgrid.¹⁰

The draft decision did not accept Ausgrid's proposed VCR value because Ausgrid has not provided specific justification that its VCR value should be different from the AEMO 2014 VCR report recommendations.¹¹

10.3 Ausgrid's revised proposal

In the revised regulatory proposals, Ausgrid and other ACT/NSW distributors — Evoenergy, Endeavour Energy and Essential Energy — requested to apply the latest version of the STPIS for the 2019–24 regulatory control period.

Ausgrid stated that the modifications to the STPIS outlined in the AER's 2018 STPIS should apply for the upcoming regulatory period, to ensure that customers benefit from the AER's recent amendments to the STPIS applying from 2019. Ausgrid also submitted this approach is consistent with the final F&A, indicating that the revised scheme, on balance, would be in the best interests of consumers.

Ausgrid also sought to apply the new definitions for reliability metrics in the associated Distribution Reliability Measures Guideline published by the AER in November 2018. This will require re-calculation and verification of historical reliability performance to ensure the accurate setting of performance targets for the forthcoming regulatory period.¹²

Ausgrid's revised revenue proposal accepted our draft decision on how the STPIS will apply with the exception of the application of CPI indexation to VCR.¹³

⁹ AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).

¹⁰ Values determined from the most recent Australian Energy Market Operator (AEMO) review of VCR values; AER, *Draft decision Ausgrid distribution determination - Attachment 10 - STPIS*, September 2018, pp. 13–14.

¹¹ AER, *Draft decision Ausgrid distribution determination - Attachment 10 - STPIS*, September 2018, pp. 13–14.

¹² Ausgrid, *Revised regulatory proposal 2019–24*, January 2019, pp. 398-404; Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, January 2019, pp. 10–18; Ausgrid, *Revenue Proposal Attachment 9.03: GHD Back-Cast Audit*, January 2019, pp. 10–18.

¹³ Ausgrid, *Revised Revenue Proposal*, January 2019, pp.151–152; Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, January 2019, pp. 11–13.

10.4 AER's assessment approach

We are required to make a decision on how the STPIS is to apply to Ausgrid.¹⁴ 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.¹⁵

We outlined our proposed approach to, and reasons for, the application of the STPIS in our F&A and draft decision for Ausgrid. Our final decision has adopted the position in the draft decision, except for the application of the revised STPIS to ACT/NSW distributors. We have considered materials submitted to us by Ausgrid and by stakeholders.

10.5 Reasons for final decision

We will apply the revised STPIS (November 2018) to Ausgrid. The following section sets out our detailed consideration on applying the STPIS to Ausgrid for the 2019–24 regulatory control period.

10.5.1 Application of revised STPIS to ACT/NSW distributors

In the draft decision, we applied the earlier version of the distribution STPIS (November 2009) to ACT/NSW distributors, including Ausgrid, for the 2019–24 regulatory period, given that the revised STPIS (November 2018) was not yet complete in time for the draft decision.¹⁶

We will apply the revised STPIS to ACT/NSW distributors in this final decision because the revised scheme would deliver better outcomes for consumers—the modified STPIS will increase the incentive for distributors to reduce the average duration of supply interruptions for all customers, while keeping the number of outages at low levels.¹⁷

This is consistent with our F&A paper — that we intended to apply the revised version once the revised version was finalised.¹⁸

The CCP10 submission supports applying the new STPIS.¹⁹

¹⁴ NER, cl. 6.12.1(9).

¹⁵ AER, *STPIS*, November 2018, cl. 2.1(d).

¹⁶ AER, *Draft decision Ausgrid distribution determination - Attachment 10 - STPIS*, September 2018, pp. 5–6.

¹⁷ AER, <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/service-target-performance-incentive-scheme-2018-amendment/final-decision>

¹⁸ 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.

¹⁹ Consumer Challenge Panel (CCP10), *Response to the Ausgrid revised regulatory proposal 2019-24 and AER draft determination*, January 2019, p. 44.

10.5.2 Reliability of supply component

Applicable components and parameters

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

Exclusions

The STPIS allows certain events to be excluded from the calculation of the s-factor revenue adjustment. We will apply the exclusions specified in the STPIS 2.0.

We will also calculate the major event day (MED) threshold using the 2.5 beta method in accordance our F&A and draft decision.

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.²⁰

Since Ausgrid'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 final decision, we need to calculate Ausgrid's performance targets in accordance with the new performance measurement methods specified in version 2.0 of the STPIS. This involved re-calibrating Ausgrid's historical performance data of the last five regulatory years of 2013–14 to 2017–18.

We received from Ausgrid independently verified historical reliability performance data over the past five years to incorporate the revised definitions for:

- Sustained interruptions (outages longer than 3 minutes)
- Single phase low voltage outages (33 per cent of customers impacted)
- Single phase high voltage outages (67 per cent of customers impacted).

Our calculated performance targets based on the five-year average and the revised definitions for Ausgrid for the 2019–24 regulatory control period are presented in Table 10.3.

²⁰ AER, *STPIS*, November 2018, cl. 3.2.1.

Table 10.3 Final decision—STPIS reliability targets for Ausgrid for the 2019–24 regulatory period

	value
CBD	
SAIDI	9.092
SAIFI	0.038
Urban	
SAIDI	59.913
SAIFI	0.603
Short rural	
SAIDI	127.959
SAIFI	1.139
Long rural	
SAIDI	496.119
SAIFI	2.481
Telephone answering	
Percentage of calls will be answered within 30 seconds	81.5%

Source: AER analysis.

10.5.3 Customer service component

The requirement for this component of the scheme under version 2.0 is identical to that in the previous version.

The STPIS customer service target applicable to Ausgrid 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).

In our draft decision, recognising Ausgrid did not have its own call centre prior to the 2014–15 regulatory year, we have calculated Ausgrid’s customer service target to be based on actual performance over the last three regulatory years from 2014–15 to 2016–17. We also indicated that, for the final decision, the performance target will be updated to include the last four regulatory years, following the end of the 2017–18 regulatory year.

In the revised proposal, Ausgrid proposed that majority weight should be placed on the last two financial years (2016–17 to 2017–18). In taking this approach, Ausgrid has

calculated a telephone response target in the 2019–24 period of 80 per cent for the following reasons:²¹

- Increasingly, customers expect to be able to find the information they need online.
- Stakeholders are concerned that the number of telephone calls answered within 30 seconds is not a meaningful customer service metric.

For these reasons, Ausgrid does not consider it appropriate for Ausgrid to be incentivised to invest in additional resources, at additional cost to [its] customers, to support a service that is declining in use.

We did not accept Ausgrid’s proposal. We consider the telephone answering parameter should be calculated using the average of historical performance, in accordance with the STPIS. For the final decision, recognising Ausgrid did not have its own call centre prior to the 2014–15 regulatory year, we have calculated the Ausgrid customer service target to be based on actual performance over the last four regulatory years of 2014–15 to 2017–18.

Our calculated telephone answering performance targets for Ausgrid for the 2019–24 regulatory control period are presented in Table 10.2.

10.5.4 Value of Customer Reliability

For our draft decision, we calculated the VCR values based on the AEMO 2014 VCR report recommendations, escalated to the October 2018 dollar value, for Ausgrid and other ACT/NSW distributors.²²

In its revised proposal, Ausgrid accepted the underlying VCR values from the AEMO 2014 report but did not accept our escalation method. Ausgrid has proposed VCR figures \$47,848 and \$41,543 per MWh for CBD and non-CBD feeders, respectively, based on the same underlying source adopted in our draft decision and escalated to the forecast June 2019 dollar value.²³

For this final decision, we have maintained the same approach as in our draft decision and updated VCR values using the December 2018 CPI index, to be \$47,956 and \$41,125 per MWh for CBD and non-CBD feeders, respectively. We consider this method is consistent with the STPIS scheme, using the best available escalation factor available at the time of the determination.

We reject Ausgrid's proposed VCR values because we do not believe that the VCR values applying to Ausgrid's customers should be different from the AER's VCR values, which will also be applied to other NSW distributors.

²¹ Ausgrid, *Revised regulatory proposal 2019–24*, January 2019, pp. 151-152; Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, January 2019, pp. 13–14.

²² AER, *Draft decision Ausgrid distribution determination - Attachment 10 - STPIS*, September 2018, pp. 13–14.

²³ Ausgrid, *Revised regulatory proposal 2019–24*, January 2019, pp. 151-152. Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, January 2019, pp. 12–13.

For this final decision, our proposed VCR values for Ausgrid's network segments are outlined in the table below. We have applied these VCR values to calculate Ausgrid's incentive rates for 2019–24.

Table 10.4 Value of customer reliability (\$/MWh)

	CBD	Urban	Short rural	Long rural
VCR ^a	47,956	41,125	41,125	41,125

Source: AER analysis; AEMO, *Value of customer reliability review, final report*, September 2014, pp. 2, 30.

^a Values based on AEMO 2014 VCR report, escalated to July 2019 dollar value using December 2018 CPI index.

10.5.5 Incentive rates

Ausgrid has updated forecast energy usage information in the revised proposal. Hence, for this final decision, we have calculated Ausgrid's incentive rates by deriving these from its consumption data and the VCR values stated in Table 10.4.

The incentive rates applicable to Ausgrid 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 in appendix B of the STPIS 2.0. Our final decision on Ausgrid'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.²⁴

Table 10.5 Final decision—STPIS incentive rates for Ausgrid for the 2019–24 regulatory period

	CBD	Urban	Short rural	Long rural
SAIDI	0.0073	0.0603	0.0076	0.0001
SAIFI	1.1561	3.9915	0.5702	0.0129

Source: AER analysis.

²⁴ AER, *STPIS*, November 2018, cl. 5.3.2(a).