



FINAL DECISION

TasNetworks 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 TasNetworks' 2019–24 distribution determination. 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 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 13 – Control mechanism

Attachment 15 – Alternative control services

Attachment 18 – Tariff structure statement

Attachment B – Negotiating framework

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance (mechanism)
DMIS	demand management incentive scheme
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
F&A	framework and approach
MAR	maximum allowed revenue
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
opex	operating expenditure
RBA	Reserve Bank of Australia
RIN	regulatory information notice
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
TNSP	transmission network service provider

Shortened form	Extended form
TUoS	transmission use of system
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 TasNetworks 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.

AER framework and approach to the application of STPIS

In the final framework and approach (F&A), we stated that we will continue to apply the distribution STPIS to TasNetworks in the next regulatory control period.¹

Our F&A also stated that the revised STPIS may apply to TasNetworks in the next regulatory period if the review of the STPIS is completed on time.²

We published the current version of our national STPIS, STPIS 2.0, in November 2018.³ In the STPIS 2.0, among other changes, the AER has adjusted the STPIS formula to better balance the weight 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:

1. change in the weighting ratio (w) for the STPIS incentive rates to 1.5 for all network segments⁴
2. simplification of the scheme by specifying STPIS outcomes as a fixed monetary amount, rather than as a percentage adjustment to the maximum allowable revenue (MAR)

¹ 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.

² AER, *Final framework and approach for TasNetworks Distribution for the Regulatory control period commencing 1 July 2019*, July 2017, p. 51.

³ AER, *Electricity distribution network service providers—service target performance incentive scheme, Version 2.0*, November 2018. (AER, *STPIS*, November 2018).

⁴ AER, *STPIS*, November 2018, cl. 3.2.2, table 1, p. 12.

3. change in the threshold for momentary interruptions from less than 1 minute to less than 3 minutes.

10.1 Final decision

Our final decision is to apply the national STPIS version 1 (November 2009) to TasNetworks in the 2019–24 regulatory control period.⁵ We will not apply the guaranteed service level (GSL) component as TasNetworks is subject to a jurisdictional GSL scheme.⁶ This is consistent with our final F&A and draft decision.

We have updated the STPIS targets and incentive rates to include 2017–18 actual performance outcome data and corrected historical performance data, which have been independently verified by TasNetworks' auditor.

We received no submissions on the application of STPIS to TasNetworks.

In making our final decision on STPIS, we have taken into account our draft decision, TasNetworks' regulatory and revised regulatory proposals, and TasNetworks' ability to apply version 2.0 of STPIS.⁷

Our response to the matters raised by TasNetworks 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 TasNetworks' 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

Table 10-1 Final decision—STPIS incentive rates for TasNetworks for the 2019–24 regulatory control period

	Critical Infrastructure	High Density Commercial	Urban	High Density Rural	Low Density Rural
SAIDI	0.0029	0.0037	0.0396	0.0099	0.0152
SAIFI	0.3362	0.2523	3.3861	1.0948	2.0611

Source: AER analysis.

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

⁶ Office of the Tasmanian Economic Regulator (OTTER), *Guideline - Guaranteed Service Level Scheme*, December 2007.

⁷ TasNetworks, *Tasmanian Transmission and Distribution Revised Regulatory Proposals 2019–2024*, 29 November 2018, pp. 94–95; AER, *Final framework and approach for TasNetworks Distribution, for the Regulatory control period commencing 1 July 2019*, July 2017, p. 51.

⁸ AER, *STPIS*, November 2009, cl. 5.3.2(a).

Table 10-2 Final decision—STPIS reliability targets for TasNetworks for the 2019–24 regulatory control period

	value
Critical Infrastructure	
SAIDI	32.984
SAIFI	0.251
High Density Commercial	
SAIDI	20.074
SAIFI	0.260
Urban	
SAIDI	89.657
SAIFI	1.081
High Density Rural	
SAIDI	250.959
SAIFI	2.466
Low Density Rural	
SAIDI	400.401
SAIFI	3.219
Telephone answering	
Percentage of calls will be answered within 30 seconds	76.30%

Source: AER analysis.

10.2 Our draft decision

We applied the earlier version of the distribution STPIS (November 2009)⁹ to TasNetworks for the 2019–24 regulatory period, given that the revised STPIS (November 2018) was not yet complete in time for the draft decision.¹⁰

⁹ AER, *STPIS*, November 2009.

¹⁰ AER, *Draft decision - TasNetworks Distribution Determination 2019 to 2024, Attachment 10 - Service target performance incentive scheme*, September 2018.

Our draft decision for TasNetworks applied the national STPIS to the distributor except for the guaranteed service level (GSL) component.

10.3 TasNetworks' revised proposal

TasNetworks accepted our draft decision on distribution STPIS.¹¹

10.4 AER's assessment approach

We are required to make a decision on how the STPIS is to apply to TasNetworks.¹² 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.¹³

10.5 Reasons for final decision

While we indicated in the F&A that we intended to apply STPIS version 2.0 to TasNetworks in the forthcoming regulatory period, we note that TasNetworks is unable to backcast its historical performance data to report supply interruptions data in accordance with the revised 3-minute sustained interruption threshold.¹⁴ Hence, we accept TasNetworks' revised proposal to continue to apply version 1 of the scheme.

However, we shall be collecting supply interruption information in accordance with version 2.0 and newly published Distribution Reliability Measures Guidelines,¹⁵ at the commencement of the forthcoming regulatory period.

10.5.1 Revenue at risk

TasNetworks' 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. This was also the revenue at risk applied to TasNetworks in the current regulatory period.

Revenue at risk caps the potential reward and penalty for TasNetworks 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.

We received no submissions from stakeholders regarding the application of TasNetworks' revenue at risk.

¹¹ TasNetworks, *Tasmanian Transmission and Distribution Revised Regulatory Proposals 2019–2024*, 29 November 2018, pp. 94–95.

¹² NER, cl. 6.12.1(9).

¹³ AER, *STPIS*, November 2018, cl. 2.1(d).

¹⁴ TasNetworks, *Submission to the AER Service target performance incentive scheme - 2018 amendment*, 8 February 2018.

¹⁵ AER, *Distribution Reliability Measures Guideline*, November 2018.

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 TasNetworks' 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 comprise the events specified in the STPIS, such as the effects of transmission network outages and other upstream events. The effects of extreme weather events that have the potential to significantly affect TasNetworks' underlying STPIS performance are also excluded.

In our draft decision, we accepted TasNetworks' proposal to calculate the major event day (MED) threshold using the 2.5 beta method in accordance our F&A. Since we have not received any submission that we should depart from our draft decision, we maintain our 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.¹⁶

Since TasNetworks' 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.

We have updated the STPIS targets to include 2017–18 actual performance outcome data and corrected historical performance data, which have been independently verified by TasNetworks' auditor.

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

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

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

Table 10-3 Final decision—STPIS reliability targets for TasNetworks for the 2019–24 regulatory control period

	value
Critical Infrastructure	
SAIDI	32.984
SAIFI	0.251
High Density Commercial	
SAIDI	20.074
SAIFI	0.260
Urban	
SAIDI	89.657
SAIFI	1.081
High Density Rural	
SAIDI	250.959
SAIFI	2.466
Low Density Rural	
SAIDI	400.401
SAIFI	3.219
<i>Telephone answering</i>	
Percentage of calls will be answered within 30 seconds	76.30%

10.5.3 Customer service component

The STPIS customer service target applicable to TasNetworks is the 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 TasNetworks' customer service performance target. Our calculated customer service targets for TasNetworks for the 2019–24 regulatory control period are presented in Table 10-3.

10.5.4 Incentive rates

The incentive rates applicable to TasNetworks 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 version 2.0. We have updated the incentive rates to include 2017–18 actual performance outcome data and corrected historical performance data, which have been independently verified by TasNetworks' auditor.

Our final decision on TasNetworks' incentive rates are set out in Table 10-4. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.¹⁷

Table 10-4 Final decision—STPIS incentive rates for TasNetworks for the 2019–24 regulatory control period

	Critical Infrastructure	High Density Commercial	Urban	High Density Rural	Low Density Rural
SAIDI	0.0029	0.0037	0.0396	0.0099	0.0152
SAIFI	0.3362	0.2523	3.3861	1.0948	2.0611

Source: AER analysis.

10.5.5 Value of customer reliability to calculate the incentive rates

Our F&A paper stated that we will apply the latest value for VCR through the distribution determination in calculating TasNetworks' incentive rates.¹⁸ TasNetworks provided energy usage information based on AEMO's load classification of residential, commercial, industry and agriculture. Hence, for this final decision, we have calculated TasNetworks' VCR for the incentive rates by deriving it from its consumption data and AEMO's published segment VCR, escalated to December 2018 dollar value.

The VCR for network segments is outlined in Table 10-5. We have applied this VCR to calculate TasNetworks' incentives rates for the 2019–24 regulatory control period.

Table 10-5 Value of customer reliability (\$/MWh)

	Critical Infrastructure	High Density Commercial	Urban	High Density Rural	Low Density Rural
VCR	44,357.90	43,979.87	35,287.43	37,562.67	40,629.36

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

¹⁷ AER, *STPIS*, November 2009, cl. 5.3.2(a).

¹⁸ AER, *STPIS*, November 2009.