



FINAL DECISION
Jemena distribution
determination
2016 to 2020

Attachment 18 – f-factor
scheme

May 2016

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Note

This attachment forms part of the AER's final decision on Jemena's distribution determination for 2016–20. It should be read with all 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

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – f-factor scheme

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Shortened forms

| Shortened form | Extended form |
|----------------------------------|--|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| AMI | Advanced metering infrastructure |
| 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 |

| Shortened form | Extended form |
|----------------|---|
| 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 |

18F-factor scheme

The f-factor scheme is prescribed by the *f-factor scheme order 2011* (the Order) issued under the *National Electricity (Victoria) Act 2005*.¹ The Order confers functions and powers on the AER to implement the f-factor. The objective of the f-factor scheme is to provide incentives for Victorian distributors to:²

- reduce the risk of fire starts due to electricity infrastructure
- reduce the risk of loss or damage caused by fire starts.

In its submission to our framework and approach (F&A) paper, the Victorian Department of State Development, Business and Innovation (DSDBI) stated that it intended to review the f-factor scheme in 2014–15 to determine how the incentive has performed in delivering efficient improvements to power line bushfire safety.³ We are still awaiting the Victorian Government's findings from its review and its proposed changes to the scheme.

As a new scheme has not been made as yet by the Victorian Government, we will apply the approach described in our F&A paper, which proposed to retain the current incentive framework—to set the target based on a five year historical average and an incentive rate of \$25,000 per fire start.⁴

We will apply the f-factor scheme in a manner similar to the other incentive schemes, such as the STPIS. As stated in our F&A paper, we will include an adjustment amount as an "I-factor" component in the annual revenue requirement calculation formula to give effect to the reward or penalty outcomes of actual fire starts from the year commencing on 1 January 2016.⁵

18.1 Final decision

In the absence of any new scheme, we adopt the preliminary decision on the f-factor scheme as the final decision for Jemena.

We will apply the current f-factor scheme to Jemena to set the target based on a five year historical average, at 66.1 fires per year.⁶

¹ National Electricity (Victoria) Act 2005, s.16C.

² *Energy and Resources Legislation Amendment Bill 2010*, Explanatory Memorandum, p. 10.

³ Department of State Development Business and Innovation, *Submission: Preliminary positions on replacement framework and approach (for consultation)*, 30 August 2014, p. 8.

⁴ AER, *Final Framework and approach for the Victorian Electricity Distributors*, October 2014, p. 127.

⁵ AER, *Final Framework and approach for the Victorian Electricity Distributors*, October 2014, p. 87.

⁶ Calculation was based on (1) the fire starts data for 2012–2014 from the f-factor RIN; and (2) because audited fire start information was not available for 2010 and 2011, we adopted the fire starts target under the previous scheme as the fire start numbers for 2010 and 2011, in accordance with information provided by JEN on 13 October 2015 in response to AER's information request (JEN AER IR#027).

18.2 Jemena's revised proposal

Jemena accepted our preliminary decision on the f-factor scheme.⁷

18.3 Assessment approach

Consistent with our approach to assessing Jemena's f-factor scheme in the preliminary decision, we examined the proposed f-factor scheme against the requirements of the F&A as stated above—whether it:

- sets the target based on a five year historical average
- maintains the incentive rate of \$25,000 per fire start.

18.4 Submissions

We have not received any submissions on the f-factor scheme.

18.5 Reasons for final decision

Jemena has accepted our preliminary decision on the f-factor scheme. Therefore, we adopt the preliminary decision on the f-factor scheme as the final decision for Jemena.

⁷ Jemena, *Revised regulatory proposal*, January 2016, p. 15.