



FINAL DECISION
United Energy distribution
determination
2016 to 2020

Attachment 11 – Service target
performance incentive scheme

May 2016

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Note

This attachment forms part of the AER's final decision on United Energy'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

11 Service target performance incentive scheme

Under clause 6.3.2 of the National Electricity Rules 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 how we will apply the STPIS to United Energy for the 2016–20 regulatory control period.

AER's service target performance incentive scheme

We published the current version of our national STPIS in November 2009.¹ 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.

11.1 Final decision

Our final decision is to apply the STPIS to United Energy for the 2016–20 regulatory control period in the following manner:

- set revenue at risk for United Energy at the range ± 5.0 per cent
- segment United Energy's network according to feeder categories urban and short rural
- apply reliability of supply parameters of:
 - system average interruption duration index or SAIDI,
 - system average interruption frequency index or SAIFI
 - momentary average interruption frequency index event or MAIFIE
 - customer service (telephone answering).
- set performance targets based on the United Energy's average performance over the past five regulatory years
- apply the methodology indicated in the national STPIS for excluding specific events from the calculation of annual performance targets
- apply the methodology and value of customer reliability (VCR) values to the calculation of incentive rates using the latest VCR for Victoria
- not apply the STPIS guaranteed service level scheme (GSL) because United Energy must comply with the Victorian jurisdictional GSL scheme.

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

In making our final decision on the application of STPIS, we have taken into account our preliminary decision, framework and approach paper, United Energy’s regulatory proposals, our information requests to United Energy and submissions raised by stakeholders. Our response to the matters raised by United Energy and stakeholders about the application of the STPIS are also discussed in this final decision.

We have not departed from our preliminary decision on the application of the STPIS to United Energy because it had accepted that decision.

Table 11.1 and Table 11.2 outline our final decision on the applicable incentives rates and performance targets that will be applied to United Energy’s STPIS for 2016–20. The incentive rate for the customer service component will be -0.040 per cent per unit of the telephone answering parameter.²

Table 11.1 AER final decision on STPIS incentive rates for United Energy for the 2016–20 regulatory control period

	Urban	Short rural
SAIDI	0.0698	0.0034
SAIFI	4.9133	0.2743
MAIFle	0.3931	0.0219

Source: AER Analysis.

² AER, *STPIS*, November 2009, cl. 5.3.2(a).

Table 11.2 AER final decision on STPIS reliability targets for United Energy for the 2016–20 regulatory control period

	Value
Urban	
SAIDI	61.188
SAIFI	0.896
MAIFle	0.918
Short rural	
SAIDI	151.602
SAIFI	2.018
MAIFle	2.980
Telephone answering	
Percentage of calls will be answered within 30 seconds	64.78

Source: AER analysis.

11.2 Our preliminary decision

Our preliminary decision applied the national STPIS to United Energy except for the guaranteed service level component.³ It also applied AEMO's latest VCR in setting the incentive rates for United Energy.⁴

The preliminary decision considered that United Energy's STPIS targets and revenue at risk should not be lowered to account for a lower VCR.⁵

11.3 United Energy's revised proposal

United Energy's revised regulatory proposal accepted our preliminary decision provided that:

- we also retain our preliminary decision on Augmentation capex, VCR and demand forecast

³ AER, *Preliminary Decision United Energy distribution determination 2016 to 2020 Attachment 11 – Service target performance incentive scheme*, October 2015).

⁴ Values determined from the most recent Australian Energy Market Operator (AEMO) review of VCR values.

⁵ AER, *Preliminary Decision United Energy distribution determination 2016 to 2020 Attachment 11 – Service target performance incentive scheme*, October 2015).

- we fix the calculation error in the incentive rates due to the incorrect usage of total energy consumption.

It accepted our preliminary decision on STPIS provided that we not vary from our preliminary decision on augmentation capex, VCR and demand forecast in the final decision.⁶

11.4 AER's assessment approach

We are required to make a decision on how the STPIS is to apply to United Energy.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 justification for, the application of the STPIS in our F&A and preliminary decisions for Victorian electricity distributors. Our final decision is consistent with the position in the preliminary decision and F&A, unless new information has become available or new arguments have been put forward which warrants a reconsideration of this position. We have considered materials submitted to us by United Energy and by stakeholders.

11.4.1 Interrelationships

In applying the STPIS we must consider 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.¹⁰ For the 2016–20 regulatory control period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS) and the opex Expenditure Benefit Sharing Scheme (EBSS).

The reward and penalty amounts (the incentive rates) under STPIS 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 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.

⁶ United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, p. 92.

⁷ NER, cl. 6.12.1(9).

⁸ AER, *STPIS*, November 2009, cl. 2.1(d).

⁹ NER, cl. 6.6.2(b)(3)(iv).

¹⁰ AER, *STPIS*, November 2009, cl. 1.5(b)(5).

The STPIS on the other hand 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 CESS and EBSS, the STPIS will ensure 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.

11.5 Reasons for the final decision

The following section sets out our detailed consideration on:

- applying the STPIS to United Energy for the 2016–20 regulatory control period
- transitional matters in the applying the STPIS between regulatory control periods.

11.6 Applying the STPIS

We will apply the scheme as is to United Energy's STPIS for the 2016–20 regulatory control period. This is consistent with our preliminary decision on STPIS for United Energy.¹¹

We accept United Energy's revised regulatory proposal not to vary from our preliminary decision on capex, demand and STPIS.¹²

11.6.1 Revenue at risk

Our final decision is to apply our preliminary decision. The revenue at risk cap for each regulatory year in 2016–20 is ± 5.0 per cent as per the scheme standard for United Energy. Within this revenue at risk cap, there is also a cap on the revenue at risk of ± 0.5 per cent for the telephone answering parameter.

11.6.2 Reliability of supply component

Applicable components and parameters

We will apply unplanned SAIDI, unplanned SAIFI and MAIFle parameters under the reliability of supply component to United Energy's urban and short rural feeders for the 2016–20 regulatory control period. Unplanned SAIDI measures the sum of the duration

¹¹ AER, *Preliminary Decision United Energy distribution determination 2016 to 2020 Attachment 11 – Service target performance incentive scheme*, October 2015, pp. 11(7)–11(9).

¹² United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, p. 92.

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. Under MAIFLe, all supply restoration attempts by network switching operations within one minute are treated as one event. If supply is restored within the same minute, the event is counted as one momentary interruption. If supply cannot be restored, the event is treated as one sustained interruption and zero momentary interruption. This measurement method was previously used under the s-factor scheme of the ESCV.

Exclusions

The STPIS allows certain events to be excluded from the calculation of the service standard component (S-factor) revenue adjustment. These exclusions include the events that are beyond the control of United Energy, 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 United Energy's STPIS performance.

United Energy proposed to calculate the major event day (MED) thresholds using the 2.5 beta method in accordance with appendix D of the STPIS and our framework and approach paper.¹³ It also submitted that the MED should also be modified to exclude catastrophic events days. We accept the 2.5 beta method to calculate MED. However we consider it not necessary to alter the definition of the STPIS to exclude catastrophic events (please refer to section 11.7.1).

11.6.3 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 target must be modified for any reliability improvements completed or planned where the planned reliability improvements are:¹⁴

- included in the expenditure program proposed by the distributor in its regulatory proposal, or
- proposed by the distributor, and the cost of the improvements is allowed by the relevant regulator, in the distributor's previous regulatory proposal or regulatory submission, and
- expected to result in a material improvement in supply reliability.

United Energy accepted our preliminary decision on performance targets to be based on the average performance over the past five regulatory years.

¹³ United Energy, *2016–20 Regulatory proposal*, 30 April 2015, p. 140.

¹⁴ AER, *STPIS*, November 2009, cl. 3.2.1.

Consequently, our calculated performance targets for United Energy for the 2016–20 regulatory control period are presented in Table 11.3.

Table 11.3 AER final decision on STPIS reliability targets for United Energy for the 2016–20 regulatory control period

	Value
Urban	
SAIDI	61.188
SAIFI	0.896
MAIFle	0.918
Short rural	
SAIDI	151.602
SAIFI	2.018
MAIFle	2.980
Telephone answering	
Percentage of calls will be answered within 30 seconds	64.78

Source: AER analysis.

11.6.4 Customer service component

The national STPIS customer service target applicable to United Energy is telephone response measured as the percentage of telephone calls answered within 30 seconds. This measure is referred to as the telephone Grade of Service (GOS).

We accept United Energy's customer service targets as it has applied a five year historical average to derive them for the 2016–20 regulatory control period. This is consistent with our national STPIS.¹⁵

11.6.5 Incentive rates

The incentive rates applicable to United Energy 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 as appendix B of the National STPIS.¹⁶

¹⁵ AER, *STPIS*, November 2009, cl. 5.3.1(a).

¹⁶ Our preliminary decision incorrectly utilised United Energy's total energy consumption instead of average energy consumption to calculate the incentive rates. This final decision has corrected this error by using United Energy's average energy consumption to calculate the incentive rates.

Our final decision of United Energy's incentive rates are at Table 11.4. The incentive rate for the customer service component will be -0.040 per cent per unit of the telephone answering parameter.¹⁷

Table 11.4 AER final decision on STPIS incentive rates for United Energy for the 2016–20 regulatory control period

	Urban	Short rural
SAIDI	0.0698	0.0034
SAIFI	4.9133	0.2743
MAIFle	0.3931	0.0219

Source: AER Analysis.

11.7 Other considerations in applying the STPIS

11.7.1 Definitional changes to the STPIS

United Energy's revised regulatory proposal outlined that we should reconsider our position on several definitional changes to the scheme to can align with the AEMC's distribution reliability measures recommendations.¹⁸

Removal of catastrophic events from major event days classification

United Energy revised regulatory proposal urged us to reconsider our preliminary decision and amend the STPIS so that catastrophic events should be excluded from the statistical method used to classify Major Event Days.¹⁹

We consider it is not appropriate in a regulatory determination to alter the scheme design without extensive consulting with stakeholders or reviewing and analysing the full impact of the proposed changes on the design of the scheme.

We will, however, review the definition of catastrophic events when we review the scheme.

Definition of momentary interruption

United Energy revised regulatory proposal urged us to reconsider our preliminary decision and amend the STPIS to conform with the IEEE 1366 - 2012 standard of less

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

¹⁸ United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, pp. 92–93.

¹⁹ United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, p. 92.

than five minutes or the UK/European standard of less than three minutes to exclude outages of less than three minutes.²⁰

We consider it is not appropriate in a regulatory determination to alter the scheme design without extensive consulting with stakeholders or reviewing and analysing the full impact of the proposed changes on the design of the scheme.

We will, however, review the definition of catastrophic events when we review the scheme.

Churn in feeder categories

Depending on jurisdictions, we currently classify feeders into the CBD, urban, short rural and long rural classifications for the STPIS. However, we note that the classification of some urban and rural feeders may change over time.

United Energy revised regulatory submission proposed that the definition of an urban feeder be based on weather-normalised maximum demand rather than actual maximum demand so that feeder classifications do not vary from one year to the next.²¹

We consider this definitional change should be thoroughly considered and consulted with all stakeholders prior to implementation. Further, United Energy's proposal to amend the definition is not compelling because:

- the number of feeder “churn” is likely to be not significant
- the incentive rates for both urban and rural feeders are based on the same VCR value. The financial impact on the distributor because of feeder churn, if any, should be small.

11.7.2 Using Momentary Average Interruption Frequency Index event (MAIFle)

Under STPIS, all operations of an automatic reclose device are typically counted as a separate interruption (or MAIFI event). However, the measurement method for MAIFI is not clearly defined in STPIS.

Under the historical Victorian measurement method, if supply is restored within one minute, all other unsuccessful attempts to restore supply during this time are not counted towards the MAIFle measurement. This MAIFI measurement method is not inconsistent with note 4 of Appendix A of STPIS, which states that “in calculating MAIFI, each operation of an automatic reclose is counted as a separate interruption. Sustained interruptions which occur when a recloser locks out after several attempts to reclose should be deleted from MAIFI calculations.”

²⁰ United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, p. 92.

²¹ United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, p. 93.

This MAIFle measurement method is currently applied to the Victorian distributors in the 2011–15 determination.

We maintained our preliminary decision to apply MAIFle because it is consistent with our historical decision. Further United Energy revised regulatory proposal had accepted the use of MAIFle.²²

11.7.3 Adjusting STPIS targets for the installation of rapid earth fault current limiters

The Victorian Government submission stated that there are reliability benefits associated with the installation of rapid earth fault current limiters (REFCLs)²³ and that we must take into consideration any potential revenue increments that the distributor will receive under the STPIS.²⁴

Submissions by Victorian distributors (except for United Energy who provided no comment) disagreed with the Victorian Government. In summary, they stated that they do not anticipate a material improvement in supply reliability. In fact, they envisaged a possibility that reliability may deteriorate rather than improve as a result of the deployment of REFCL devices in the electricity distribution network.²⁵

We consider that reliability is unlikely to be improved in the early stage of REFCL implementation, because:

- Distributors will most likely only operate REFCLs on high risk days, such as total fire ban days. On such days, feeders will be switched off after a predetermined time—likely to be one minute—without reclosing. The feeders can only be restored after a line patrol. Hence, longer supply interruptions will likely be a result.
- Further, most REFCL devices are expected to be installed late in the 2016-20 regulatory control period. Therefore, any reliability benefits, if any, will not eventuate until after that period.

United Energy did not respond to the Victorian Government's submission on this matter.

11.7.4 Adjusting performance targets for reliability improvements due to the installation of smart meters

²² United Energy, *2016 to 2020 Revised Regulatory Proposal*, 6 January 2016, p. 92.

²³ When one of the high voltage conductors develops an earth fault, REFCL will suppresses the voltage of that particular conductor to prevent a fire from starting.

²⁴ Victorian Government, *Submission on the Victorian electricity distribution network service providers' revised regulatory proposals for 2016-20*, 14 January, p. 8.

²⁵ CitiPower and Powercor, *Further submission to the AER regarding preliminary determination*, 4 February 2016, pp. 19–21; Jemena Electricity Networks, *Victorian 2016-2020 Electricity Distribution Process Review Submission to the Victorian EDPR Process*, 4 February 2016, pp.18–20; AusNet Services, *Response to submissions on the Victorian EDPR Preliminary Decision*, 4 February 2016, pp. 31–32.

Based on a report by Deloitte in 2011,²⁶ the Victorian Government suggested that distributors' historical five-year average STPIS targets should be adjusted as result of the Advanced Metering Infrastructure (commonly known as smart meters) program. Specifically, the following benefits were identified in the Deloitte report:

- reduction in unserved energy due to faster detection of outages and restoration times
- low voltage network monitoring improvement benefits
- rural and semi-rural area notification time improvement benefits
- Outage Management innovation benefits.

All distributors refuted the Victorian Governments claims about the benefits of smart meters and commented that the assumptions used by Deloitte in its 2011 report were flawed and not based on actual observation.

We consider that there is insufficient evidence to support the extent of improvements to reliability claimed by the 2011 Deloitte report because:

- Only Jemena and AusNet Services achieved sustained performance improvement in the last regulatory period, whereas the CitiPower, Powercor and United Energy— all of whom achieved a very high rate of AMI implementation—did not report improvement in supply reliability.
- On specific SAIDI benefits²⁷, Powercor stated that faster outage detection does not result in a change in the number or duration of outages recorded for STPIS purposes. Earlier notification of the fault means the distributor starts recording the outage sooner and commencing restoration procedures faster; however, this does not result in a reduction in the duration of the outage for STPIS purposes because the response process is the same.²⁸

11.7.5 Value of customer reliability to calculate the incentive rates

Our preliminary decision calculated United Energy's VCR for the incentive rates by deriving it from its energy consumption data, the Victorian electricity distributors' energy consumption data and AEMO's published state wide VCR.

The VCR for United Energy's urban and short rural segments is \$ 39.03 per kWh. We have applied this VCR to calculate its incentives rates for 2016–20.

11.7.6 Consumer challenge panel submission

²⁶ Deloitte, *Advanced metering infrastructure cost benefit analysis*, August 2011.

²⁷ Deloitte, *Advanced metering infrastructure cost benefit analysis*, 2 August 2011, p. 65; Available at <http://www.smartmeters.vic.gov.au/about-smartmeters/reports-and-consultations/advanced-metering-infrastructure-cost-benefit-analysis>.

²⁸ Powercor, *Further submission to the AER regarding preliminary determination*, 4 February 2016, pp. 8–9.

The Consumer Challenge Panel stated that deeper analysis is required of the preliminary decisions and the revised proposals to ensure that there are no added costs which would lead to increased reliability.²⁹

We have reviewed United Energy's forecast expenditure and found no reliability benefits in its forecast expenditure.

11.8 Transitional arrangements for the STPIS

This section addresses the following transitional issues relating to the STPIS:

- how we intend to adjust the S-factor between regulatory control periods
- how we intend to account for revenue increments or decrements resulting from the STPIS outcomes between regulatory control periods
- how we will close out Essential Services Commission service performance scheme for 2006–10.

11.8.1 Adjusting the S-factor between regulatory control periods

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 year because audited performance data would only be 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 of 2014 and 2015 will apply to prices in the 2016 and 2017 regulatory years respectively.

The revenue at risk cap limits the risk of the STPIS to United Energy at ± 5.0 per cent of the annual allowable revenue. However, distributors may exceed this cap where there are increases or decreases to the amount of the annual allowable revenue that they can recover between regulatory control periods. The STPIS scheme accounts for the differences to the allowable revenue recoverable between regulatory control periods by making an adjustment to the "raw"³⁰ S-factor for the last and second last regulatory years of the current regulatory control period (which is applied in the first and second regulatory years of the next regulatory control period) by adjusting the raw S-factor value based on:

²⁹ Consumer challenge panel, *CCP3 Response to AER Preliminary Decisions and revised proposals from Victorian electricity distribution network service providers for a revenue reset for the 2016-2020 regulatory period*, 22 February 2016, p. 28.

³⁰ "Raw" refers to the S-factor prior to any adjustments.

the percentage change between the annual revenue requirement in the last regulatory year of the previous regulatory control period and the annual revenue requirement for first regulatory year of the next regulatory control period taken from the post-tax revenue model.³¹

Hence, the revenue at risk cap for the first two years of the next regulatory control period will be adjusted based on the approved revenue at risk cap of the previous regulatory control period.

11.8.2 Accounting for revenue increments decrements between regulatory control periods

A distributor's performance in the last regulatory year of its regulatory control period will affect its revenue in the second regulatory year in the next regulatory control period.

For example, if a distributor has a regulatory control period of five regulatory years between 1 July 2007 and 30 June 2012, its performance in the 2011–12 financial year will affect its revenues in the second regulatory year of the next regulatory control period (that is from 1 July 2014).³²

The STPIS provides a mechanism to account for any step change in revenues (or prices), via X_0 ³³, from one regulatory control period to the next. The 'raw' S-factor calculated for the last and second last regulatory years of the regulatory control period (which is applied in the first and second regulatory years of the next regulatory control period) is adjusted in accordance with the following formula.³⁴

$$S_t^{''' } = \frac{S_t'}{1-X_0}$$

Where:

- $X_0 = \frac{AARR_{2014} - AARR_{2015}}{AARR_{2014}}$
- $S_t^{''' }$ is the sum of the S-factors for all parameters, after application of the s-bank, as determined in equation (3) in the STPIS
- $AARR_{2014}$ is United Energy's approved revenue in the 2016 pricing proposal
- $AARR_{2015}$ is United Energy's allowable revenue in the final determination 2017.

³¹ AER, *STPIS*, November 2009, Appendix C, pp. 33–34.

³² AER, *STPIS*, November 2009, appendix C.

³³ Defined as the percentage change between the annual revenue requirement in the last regulatory year of the previous regulatory control period and the annual revenue requirement for first regulatory year of the next regulatory control period taken from the post-tax revenue model (AER, *STPIS*, November 2009, Appendix C, pp. 33–34).

³⁴ AER, *STPIS*, November 2009, Appendix C, pp. 33–34.

11.8.3 Closing out of the ESCV's service performance scheme

Prior to the operation of STPIS from 2011, Victorian distributors were subject to the Essential Services Commission Victoria's (ESCV) "S Factor" service performance scheme.

In order to close out the ESCV's S Factor scheme, we required the final performance data of the distributors for 2010. As this information was not available in time for the final decision of the 2011–15 determination, a preliminary close out was factored into the current determination, requiring a final true-up when the final performance data are available. We will complete the close out calculation in the final determination for the 2016–20 regulatory control period. The calculation method on how to close out the ESCV's scheme was set out in our 2011–15 determination. The close-out of the "S Factor" service performance scheme will result in an adjustment to United Energy's revenue in 2016–17.

In 2012 the Victorian government amended the *National Electricity (Victoria) Act 2005* to allow us the power to close out the ESCV's S Factor scheme.³⁵ This amendment to the legislation does not alter or limit our approach to close out the scheme.

The financial penalty accrued by United Energy in the 2006–10 regulatory control period in the allowable revenue for 2016–20 regulatory control period will be \$2.64 million (\$ 2015) in total. This amendment to the legislation does not alter or limit our approach to close out the scheme.

This number has been included in the forecast revenue for the forthcoming regulatory control period by including the adjustment in the 'revenue adjustments' row of the post-tax revenue model.³⁶

³⁵ *Energy Legislation Amendment Act 2012 (Victoria)*, s. 10.

³⁶ NER, cl. 6.4.3(a)(5) and (b)(5) as amended by Division 4 of Part 3 to the *National Electricity (Victoria) Act 2005*.