



DRAFT DECISION

Power and Water Corporation Distribution Determination 2019 to 2024

Attachment 10 Service target performance incentive scheme

September 2018

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Note

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

The draft 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 11 – Demand management incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

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Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub-panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
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
NT NER or the rules	National Electricity Rules As in force in the Northern Territory

Shortened form	Extended form
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
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
SCS	standard control services
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

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 decision on whether to apply the STPIS to Power and Water Corporation for the 2019–24 regulatory control period.

10.1 Draft decision

In accordance with our framework and approach (F&A) position on STPIS,¹ we will not apply the s-factor component of the STPIS to Power and Water in the next regulatory control period.

We will also not apply the guarantee service level (GSL) component because Power and Water remains subject to a jurisdictional GSL scheme.²

10.2 Power and Water Corporation's proposal

Power and Water proposed to adopt the approach specified in the F&A.³

10.3 Assessment approach

We are required to make a decision on whether the STPIS is to apply to Power and Water.⁴ We outlined our proposed approach to, and reasons for, the no application of the STPIS in our F&A for Power and Water. Our draft decision has adopted the position in the F&A. We have considered materials submitted to us by Power and Water, and by stakeholders.

10.4 Reasons for draft decision

In accordance with our F&A position on STPIS,⁵ we will not apply the s-factor component of the STPIS to Power and Water in the next regulatory control period, due to the unavailability of reliable historic supply interruption data. However, we will be collecting relevant data during the course of the 2019–24 regulatory control period in

¹ AER, *Final framework and approach for Power and Water Corporation, for the Regulatory control period commencing 1 July 2019*, July 2017, pp. 44–45.

² AER, *Final framework and approach for Power and Water Corporation, for the Regulatory control period commencing 1 July 2019*, July 2017, pp. 44–45.

³ Power and Water Corporation, *Power and Water Corporation Regulatory Proposal, Regulatory Control Period 1 July 2019 to 30 June 2024*, March 2018, pp. 114–118.

⁴ NER, cl. 6.12.1(9).

⁵ AER, *Final framework and approach for Power and Water Corporation, for the Regulatory control period commencing 1 July 2019*, July 2017, pp. 44–45.

order to establish suitable targets for the following regulatory control period. No submission has been received on this matter.

We will also not apply the GSL component because Power and Water remains subject to a jurisdictional GSL scheme.⁶ In the Northern Territory, the Utilities Commission sets out GSLs that apply to Power and Water. Our intention is to not create duplication or compromise Power and Water's ability to comply with the jurisdictional requirements. We will reconsider this position if the Northern Territory Government advises that these arrangements will cease to apply.

⁶ AER, *Final framework and approach for Power and Water Corporation, for the Regulatory control period commencing 1 July 2019*, July 2015, pp. 44–45.