



**Draft determinations
and
Explanatory statement**

F-factor amount determinations for 2012

for

Victorian electricity distribution network service providers

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Request for submissions

Interested parties are invited to make written submissions to the Australian Energy Regulator (AER) regarding this paper by the close of business Friday, 2 August 2013.

Submissions can be sent electronically to: aer inquiry@aer.gov.au

Alternatively, submissions can be sent to:

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultation process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on the AER's website at <http://www.aer.gov.au>. For further information regarding the AER's use and disclosure of information provided to it, see the ACCC/AER Information Policy, October 2008 available on the AER's website.

Enquires about this paper, or about lodging submissions, should be directed to the Network Operations and Development branch of the AER on (03) 9290 1470.

After consideration of stakeholders' submissions, the AER will publish a final decision and determinations in accordance with the F-Factor Scheme Order 2011.

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Shortened forms

AER	Australian Energy Regulator
DNSP	Electricity Distribution Network Service Provider
NER	<i>National Electricity Rules</i>
NEVA	<i>National Electricity (Victoria) Act 2005</i>
ESV	Energy Safe Victoria
the Order	<i>f-factor scheme order 2011</i>

1 Introduction

On 24 June 2010, the Victorian Parliament passed the *Energy and Resources Legislation Amendment Act 2010*. The Act amended the *National Electricity (Victoria) Act 2005* (the NEVA) to introduce an 'f-factor scheme'. The Victorian Government published the *f-factor scheme order 2011* (the Order) on 23 June 2011 under the NEVA. The scheme provides incentives for Distribution Network Service Providers (DNSPs) to reduce the risk of fire starts due to electricity infrastructure, and to reduce the risk of loss or damage caused by fire starts.¹ The Order prescribes that, for the first four years of the scheme (2012-15), DNSPs will be either rewarded or penalised at the pre-determined incentive rate of \$25,000 per fire for performing better or worse than their respective targets.

The Order requires the AER to set the fire start targets for 2012-15 on the basis of a historical average and to determine the annual reward/penalty amounts for this period, at the rate of \$25,000 per fire.

On 22 December 2011, we (the AER) made our f-factor scheme final determination. This set the fire start benchmark target for each Victorian DNSP. As required by the Order, the targets were based on the average of historical fire starts of each DNSP over the five previous calendar years — that is, the average of 2006-10.²

The Order also requires us to publish a draft "f-factor amount determination" for consultation before determining the final reward or penalty amounts each year.³

1.1 Purpose of this paper

This paper sets out our draft proposal for the f-factor amount determinations for the 2012 calendar year, as well as providing an explanatory statement as required by clause 14(2) of the Order. This paper also sets out the AER's:

- process in making these f-factor amount determinations
- considerations and reasons for making these determinations
- draft F-factor scheme determinations for each of the five Victorian DNSPs.

We seek stakeholders' comments and submissions to the draft determinations. Page 3 contains the details of how to make a submission.

¹ Energy and Resources Legislation Amendment Bill 2010, *Explanatory Memorandum*, p.10.

² Under cl.8 of the Order

³ Under cl.12 of the Order

2 AER's process

We undertook the steps set out below in order to obtain the relevant information for making the proposed f-factor amount determinations for each of the five Victorian DNSPs. In summary, the process included collecting information from DNSPs using our formal information-gathering powers. We also sought public fire start reports from each DNSP.

2.1 Collection of information from DNSPs - F-factor regulatory information notice (RIN)

The RIN is the AER's standard information collection tool under the *National Electricity Law*. The information provided by the DNSPs under a RIN are independently audited and signed by an authorised company officer by a statutory declaration.

We issued a fire start reporting RIN to each DNSP in November 2012. In accordance with this RIN, the DNSPs provided their fire start information by 30 April 2013. The attached draft determinations are based on the information provided under the RINs.

2.2 Public fire start reports

Under clause 5(1) of the Order, the AER may request public fire start reports. In August 2012, we requested these reports from the DNSPs to increase transparency of fire start information. These reports were published on the AER's website, as required by clause 5(5) of the Order. Interested parties wishing to comment on the source information of this draft determination can view the fire start information at the following link <http://www.aer.gov.au/node/20258>.

Whilst the AER can publish information received through a RIN either by seeking consent from the DNSPs or by applying a public interest test, since the public fire start reports provided by the DNSPs are published on the AER's website, and contain sufficient information for stakeholders to identify recorded fire starts, we have decided not to publish the information contained in the RINs,⁴

⁴ The AER is currently consulting on the process for information disclosure of information reported through RINs in future under the "Better Regulation" project <http://www.aer.gov.au/Better-regulation-reform-program>

3 Explanatory statement

The Order requires that we publish an explanatory statement to explain the provisions of the f-factor scheme, the relevant rules requirements and our reasons for making this draft determination.

3.1 The f-factor scheme

The f-factor scheme is intended to provide a financial incentive for DNSPs to reduce the number of fire starts in their distribution networks. For the first four years (2012–15), DNSPs will be either rewarded or penalised at the incentive rate of \$25,000 per fire for performing better or worse than their respective fire start targets.

After the first period, the AER may vary the incentive rates and mechanism of the scheme, such as applying different targets for different parts of the network.

The following sections explain how the financial rewards and penalties arising from the f-factor scheme will be applied.

Revenue adjustment mechanism under the f-factor scheme

Clause 7(2) of the Order specifies that, based on the actual fire starts in comparison with the target number of fire starts each year (t-2), the f-factor scheme shall result in adjustments to DNSPs' revenue for year (t)—that is two years later. Hence, the revenue adjustment will start from 2014 based on the actual outcome of 2012. The adjustment will be in the form of:

$$\text{Revenue adjustment}_{t,n} = \sum_{m=1}^q \text{Incentive rate}_{t-2,n,m} \times (\text{Target no. of fires}_{t-2,n,m} - \text{Number of fires}_{t-2,n,m})$$

where the distribution system is made up of q parts and—

- a. Revenue adjustment_{t,n} is the adjustment to the revenue for Distribution Network Service Provider n for regulatory year t.
- b. Incentive rate_{t-2,n,m} is the incentive rate for part m of distribution system n for regulatory year t-2, determined in accordance with clause 10 or 11 as the case may be.
- c. Target no. of fires_{t-2,n,m} is the fire start target for regulatory year t-2 for part m of distribution system n, determined in accordance with clause 8.

The targets for each DNSP for 2012-15 are the respective average of the fire starts during the five year period (2006-10).

- d. Number of fires_{t-2,n,m} is the number of fire starts in relation to part m of distribution system n that occurred in regulatory year t-2, determined in accordance with clause 9.

3.2 Rules for f-factor amount determinations

The AER must make:⁵

- an f-factor amount determination with respect to the proposed reward/penalty amounts proposed to be passed through in the regulatory years that commence on 1 January 2014 and 1 January 2015.

Note: The pass through amount for 2014 is based on the actual fire starts of 2012 (the year "t-2")

- an f-factor amount determination no later than 30 September in the regulatory year prior to the regulatory year in which the amount is proposed to be passed through.

The amount must be determined in accordance with the following formula.⁶

Pass through amount_{t,n} = Incentive rate_{t-2} x (Target no. of fires_{t-2,n} - Number of fires_{t-2,n})

Where,

- (a) Pass through amount_{t,n} is the amount for Distribution Network Service Provider n for regulatory year t which may (but does not have to) be expressed as a percentage adjustment to the revenue of the Distribution Network Service Provider;
- (b) Incentive rate_{t-2} is \$25,000;
- (c) Target no. of fires_{t-2,n} is the fire start benchmark for regulatory year t-2 for distribution system n, determined in accordance with clause 8; and
- (d) Number of fires_{t-2,n} is the number of fire starts in relation to distribution system n that occurred in regulatory year t-2, determined in accordance with clause 9.

3.3 The AER's basis and reasons for decision

We applied the fire start information provided under the RINs as the basis for our decision because this is the best information available to us, which has been independently audited. The f-factor amount determinations are calculated using the relevant formula specified by the Order.

Consultation procedures

The Order requires that, the AER must follow the distribution consultation procedures set out in rule 6.16 of the NER in determining the f-factor pass through amounts and must invite written submissions from:⁷

- (i) the relevant DNSPs,
- (ii) the Minister,
- (iii) the Secretary to the Department of Sustainability and Environment (DSE),
- (iv) Energy Safe Victoria (ESV),

⁵ Cl.12, f-factor Order

⁶ Cl.13, f-factor Order

⁷ Cl.14(2), f-factor Order

(v) the Country Fire Authority (CFA), and

(vi) the Metropolitan Fire and Emergency Service Board (MFB)

We will send specific invitations to these organisations to seek their comments on these draft determinations.

4 Proposed f-factor amount determinations

Under clause 12 of the Order, the AER must make f-factor revenue adjustment determinations in relation to:

- CitiPower Pty Ltd ABN 76 064 651 056 (CitiPower)
- Jemena Electricity Networks (Vic) Ltd ABN 82 064 651 083 (Jemena)
- Powercor Australia Ltd ABN 89 064 651 109 (Powercor)
- SPI Electricity Ptd Ltd ABN 91 064 651 118 (SP AusNet)
- United Energy Ptd Limited ABN 70 064 651 029 (United Energy)

We have followed the method specified by the Order for calculating the pass through amounts. We first calculated the difference between the reported fire starts and the relevant targets. The incentive rate of \$25,000 was then applied to these differences. The AER's calculation results are presented Table 4.1.

The AER proposes that the pass through amount for each DNSP be as shown in Table 4.1. These pass-through amounts, if confirmed in the final determination, which range from \$10,000 in the case of CitiPower to \$2.5 million in the case of Powercor, will be added to each business' annual revenue requirements resulting in a small increase in network tariffs in 2014.

Table 4.1 Pass through amount calculation

DNISP	Fire start target determined by the AER ⁸	DNISPs' reported number of fire starts for 2012 ⁹	Difference between target and reported number of fire starts ¹⁰	Incentive rate (\$)	Pass through amount (\$)
CitiPower	30.4	30	0.4	25,000	10,000
Powercor	401.8	303	98.8	25,000	2,470,000
Jemena	56.8	42	14.8	25,000	370,000
SP AusNet	256.8	178	78.8	25,000	1,970,000
United Energy	124.2	85	39.2	25,000	980,000

Source: DNISPs' reported fire starts and the AER's f-factor determination

⁸ More information about the AER's December 2011 determination of the DNISPs' fire start targets is available in its final f-factor scheme determination <http://www.aer.gov.au/node/13069>

⁹ Details of these fires are available at <http://www.aer.gov.au/node/20258>

¹⁰ A positive result means that performance was better than the target; a negative result means performance worse than the target