Final determination

F- factor amount determinations for Victorian electricity distribution network service providers' 2014 fire start outcomes

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AUSTRALIAN ENERGY REGULATOR

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Shortened forms

AER	Australian Energy Regulator
Distributor	Electricity Distribution Network Service Provider
NER	National Electricity Rules
NEVA	National Electricity (Victoria) Act 2005
the Order	f-factor scheme order 2011

1 Summary of this determination

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 Order defines the parameters of the scheme for the 2012–15 period.

The scheme provides incentives for Victorian electricity distributors 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), distributors 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 us (the AER) to set the fire start targets for 2012–15 on the basis of historical averages and to determine the annual reward or penalty amounts for this period, at the rate of $25,000 per fire. We published fire start benchmark targets for each Victorian electricity distributor in 2011.[2]

On 24 June 2015, we published a draft determination for consultation on the proposed f-factor outcome amounts for each distributor for the fire start outcomes of 2014 calendar year. Only one submission was received,[3] but no specific issues were raised on the draft determination.

The distributors' annual allowable revenues for 2016 will be adjusted by the relevant pass-through amounts. The adjustments will range from a $2.2 million penalty for United Energy to a $1.9 million reward for AusNet Services. As a result, there will be a small change in network tariffs for 2016 as shown in Table 1.1.

Table 1.2 shows the historical trend of the fire starts reported by the distributors.

United Energy reported significant increases in fire starts in 2014compared to from 2013. This was significantly above its benchmark targets. United Energy attributed the increase to significantly higher number of insulator failures – pole / cross-arm fire (132 incidences in 2014 compared to 76 incidences in 2013). In terms of locations, United Energy reported the same number of fire starts (16) in high bushfire risk areas, but a significant increase in fire starts in low bushfire risk areas (198 incidences in 2014 compared to 111 incidences in 2013).[4]

CitiPower, Powercor and Jemena reported slight decreases in their fire starts in 2014 from 2013, but they are still above the target level. AusNet Services reported a similar number of fire starts as in 2013, which was about 30 per cent below its target level.

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

2 Under cl.8 of the Order.

3 From the Metropolitan Fire Brigade (MFB).

4 Public fire start reports by United Energy.

Table 1.1: Final determinations on the adjustment amounts to distributors' allowable revenues for 2016 under the F-factor scheme, for 2014 fire start results

Distributor	Pass through amount ($)	Approximate charge ($) per customer p.a.
CitiPower	(15,000)	(0.05)
Powercor	(1,530,000)	(2.02)
Jemena	(680,000)	(2.14)
AusNet Services	1,870,000	2.79
United Energy	(2,245,000)	(3.43)

Source: Victorian electricity distributors' reported fire starts and AER analysis. Note: numbers in brackets represent negative numbers, indicating penalties for exceeding the relevant fire start targets in 2014.

Table 1.2: Fire starts in 2014 compared with fire starts of 2013 and the benchmark targets

Distributor	Benchmark target[5]	No. of fire starts in 2012	No. of fire starts in 2013	No. of fire starts in 2014	Change from 2013 (%)	Change from target (%)
CitiPower	30.4	30	33	31	-6	2 worse
Powercor	401.8	303	498	463	-7	15 worse
Jemena	56.8	42	91	84	-8	48 worse
AusNet Services	256.8	178	176	182	3	29 better
United Energy	124.2	85	127	214	69	72 worse

Source: AER analysis

5 The benchmark targets were set based on historical averages of the 5 year period — the 2006-10 period as specified by the Order.

2 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'. Subsequently, the Victorian Government published the f-factor scheme order 2011 (the Order) on 23 June 2011 under the NEVA. The scheme provides incentives for Victorian electricity distributors (Distributors) to reduce the risk of fire starts due to electricity infrastructure, and to reduce the risk of loss or damage caused by fire starts.[6] The Order prescribes that, for the first four years of the scheme (2012–15), distributors 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 made our f-factor scheme final determination which sets the fire start benchmark target for each distributor. As required by the Order, the targets were based on the average of historical fire starts of each distributor over the five previous calendar years—that is, the average of 2006–10.[7]

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.[8]

On 24 June 2015, we published a draft determination for consultation on the proposed f-factor outcome amounts for each distributor for the fire start outcomes of the 2014 calendar year. Only one submission was received,[9] but no specific issues were raised on the draft determination.

2.1 Purpose of this paper

This paper sets out our final decision for the f-factor amount determinations for the fires caused by distributors' network assets during the 2014 calendar year, as well as providing an explanatory statement as required by clause 14(2) of the Order. This paper also sets out our:

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

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

7 Under cl.8 of the Order.

8 Under cl.12 of the Order.

9 From MFB.

2.2 The f-factor scheme

The f-factor scheme is intended to provide a financial incentive for Victorian Distributors to reduce the number of fire starts in their distribution networks. For the first four years (2012–15), distributors 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, we 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 distributors' 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:

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

- where the distribution system is made up of q parts and–
- Revenue adjustment, *n* is the adjustment to the revenue for distributor *n* for regulatory year *t*.
- 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.
- 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 distributor for 2012–15 are the respective average of the fire starts during the five year period (2006–10).
- 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.

2.3 Rules for f-factor amount determinations

Clause 12 of the Order requires us to make: [10]

- 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.

[10] Cl.12, f-factor Order

- 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.[11]

$$\textit{Pass through amount}_{t,n} = \textit{Incentive rate}_{t-2} \times (\textit{Target no. of fires}_{t-2,n} - \textit{Number of fires}_{t-2,n})$$

Where,

(a) Pass through amount, 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 ratet-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

(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.

11 Cl.13, f-factor Order

3 Draft decision and public information

We undertook the following steps to obtain the relevant information for making the proposed f-factor amount determinations for each of the five Victorian distributors and to provide relevant information to the public. In summary we exercised:

- our formal information gathering powers through issuing f-factor regulatory information notices (RINs) to collect the necessary information required from the distributors for these determinations
- our additional power under the Order to direct distributors to provide public fire start reports for publication on our website. This provides stakeholders with additional information on the fire starts.[12]

3.1 Information collection

3.1.1 Collection of information from distributors – f-factor regulatory information notice (RIN)

The RIN is our formal information collection tool under the National Electricity Law. The information provided by the distributors under a RIN are independently audited and signed by an authorised company officer under a statutory declaration.

We issued a fire start reporting RIN to each distributor in November 2013. In accordance with this RIN, the distributors provided their fire start information for 2014. The attached final determinations are based on the information provided under the RINs.

3.1.2 Public fire start reports

Clause 5(1) of the Order gives us power to request distributors to provide public fire start reports for publication on our website. In August 2012, we requested distributors to prepare fire start reports that include:

- a table of all fires—showing, in each case, the kind of fire start, date, time, geographic location of the fire and whether the fire was reported to a relevant entity as per the RIN requirement
- additional summary (aggregate) tables showing the percentage and actual number of the fire starts in the following categories to help the public in understanding the context of fire starts each year:
    - Fire Hazard Rating assigned by the Country Fire Authority or Melbourne Fire Brigade under section 80 of the Electricity Safety Act 1998 (Vic)
    - element of the network that caused the fire, such as equipment type, feeder classification and voltage level.

12 The public fire start reports are based on the RIN reports with additional summary tables that can be easily produced through automated spreadsheet process. We do not consider this a material regulatory burden for the distributors. We also consider that these reports have significant value to the public and the publication of such reports is the intent of the Order.

The 2014 reports are published on our website at: https://www.aer.gov.au/node/33224/.

3.2 Basis and reasons for final 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.

3.3 Final f-factor amount determinations

We followed the method specified by the Order for calculating the f-factor pass through amounts for the Victorian Distributors. The results were the same as those of our final determinations, as shown in Table 5.1.

4 Consultation and submissions to the draft decision

We published the draft f-factor amount determinations and explanatory statement on 24 June 2015. In accordance with the Order and the NER, we provided more than 30 business days for stakeholders to make submissions.

As required by the Order,[13] we also sent specific invitations for written submissions to the Minister for Energy and Resources, the Department of Sustainability and Environment (DSE) [now the Department of Environment and Primary Industries (DEPI)], Energy Safe Victoria (ESV), the Metropolitan Fire Brigade (MFB), the Country Fire Authority (CFA) and the Victorian DNSPs.

We received one written submission from the MFB. It has not made specific comments on the proposed reward and penalty amounts discussed in the draft determinations.[14] It, however, suggested that the AER may wish to consider the costs of fire coverage and costs of fire related damages arising from such incidents when setting the incentive rates. We consider MFB submission relates to matters that are outside the remit of this decision.

As we have not received information that would lead us to alter the draft determinations, we adopted the draft determinations findings as our final decision.

13 Cl.14(2) of the Order

14 MFB letter to the AER dated 7 August 2015. The submission is available from our website.

5 Final f-factor amount determinations

Under clause 12 of the Order, we 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)
- AusNet Electricity Services Pty Ltd ABN 91 064 651 118 (AusNet Services)
- United Energy Pty Limited ABN 70 064 651 029 (United Energy).

We have not received any submissions that would lead us to amend our draft determinations. Therefore, we adopt the proposed pass through amounts in the draft determinations as our final determinations.

Table 5.1 shows our final f-factor amount determinations for each of the Victorian distributors for their fire start outcomes of 2014. These amounts will be reflected in the distribution tariffs for 2016.

Table 5.1 Pass through amount calculation

Distributor	Pass through amount ($)	Approximate charge ($) per customer p.a. (note 15)
CitiPower	(15,000)	(0.05)
Powercor	(1,530,000)	(2.02)
Jemena	(680,000)	(2.14)
AusNet Services	1,870,000	2.79
United Energy	(2,245,000)	(3.43)

Source: Victorian electricity distributors' reported fire starts and AER analysis. Note: numbers in brackets represent negative numbers, indicating penalties for exceeding the relevant fire start targets in 2014.

15 The AER used average total customer numbers reported in the 2014 annual RINs.