



Final determinations

F-factor amount determinations for 2013 fire start outcomes
for
Victorian electricity distribution network service providers

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Contents

Contents	3
Shortened forms	4
1 Summary	5
2 Introduction	7
2.1 Purpose of this paper	7
2.2 The f-factor scheme	7
2.3 Rules for f-factor amount determinations.....	8
3 Draft decision and public information	9
3.1 Information collection	9
3.2 Basis and reasons for draft decision	9
3.3 Draft f-factor amount determinations	9
4 Consultation and submissions to the draft decision	10
5 Final f-factor amount determinations	11

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 Summary

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 Victorian 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 us (the AER) to set the fire start targets for 2012-15 on the basis of historical averages and to determine the annual reward/penalty amounts for this period, at the rate of \$25,000 per fire. We published fire start benchmark targets for each DNSP in 2011.²

On 14 June 2014, we published a draft determination for consultation on the proposed f-factor outcome amounts for each DNSP for the fire start outcomes of 2013 calendar year. Three submissions were received,³ but no specific issues were raised on the draft determination.

The DNSPs' annual allowable revenues for 2015 will be adjusted by the relevant amounts, ranging from a \$2.4 million penalty for Powercor to a \$2.0 million reward for SP AusNet. As a result, there will be a small change in network tariffs for 2015 as shown in Table 1.1.

The f-factor is an incentive scheme. DNSPs can only retain their rewards for sustained and continuous improvements. Since the next set of benchmark fire start targets will be based on the averages of the current performance, once improvement is made, the fire start targets will be tightened in future years.

We note that Jemena and Powercor reported significant increases in fire starts in 2013 from 2012, which were significantly above their benchmark targets. Both DNSPs attributed the increase to a higher number of pole and pole top fires.⁴ United Energy also reported an increase in fire starts in 2013 to just above the target level. SP AusNet reported a similar number of fire starts as 2012, which was about 30 per cent below the target level. DNSPs' benchmark fire starts and their actual outcomes for 2013 and 2012 are shown in Table 1.2.

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

² Under cl.8 of the Order

³ From The Hon Russell Northe MP, Minister for Energy and Resources, CFA and SP AusNet

⁴ Public fire start reports by Jemena and Powercor.

Table 1.1: Final determinations on the adjustment amounts to DNSPs' allowable revenues for 2015 under the F-factor scheme, for 2013 fire start results

DNSP	Adjustment (Pass through amount), \$	Approximate charge (\$) per customer p.a.
CitiPower	(65,000)	(0.21)
Powercor	(2,405,000)	(3.27)
Jemena	(855,000)	(2.77)
SP AusNet	2,020,000	3.11
United Energy	(70,000)	(0.11)

Note: Numbers in brackets represent negative numbers, indicating penalty for exceeding the relevant fire start target.
Source: DNSPs' reported fire starts and the AER's f-factor determination

Table 1.2: Fire starts in 2013, compared with fire starts of 2012 and benchmark targets

DNSP	Benchmark target	No of fire starts in 2012	2013 fire starts			
			No of fire starts	Change from 2012 in fire starts	Change from 2012 (in %)	Percentage change from target
CitiPower	30.4	30	33	3	10%	9%
Powercor	401.8	303	498	195	64%	24%
Jemena	56.8	42	91	49	117%	60%
SP AusNet	256.8	178	176	-2	-1%	-31%
United Energy	124.2	85	127	42	49%	2%

Source: AER

2 Introduction

2.1 Purpose of this paper

This paper sets out our final determinations of the Victorian DNSPs' f-factor reward or penalty amounts for their fire start outcomes of the 2013 calendar year, after consideration of the submissions to the draft determinations. It also provides an explanatory statement for the purpose of clause 14(2) of the Order.⁵ This paper sets out our:

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

2.2 The f-factor scheme

The f-factor scheme is intended to provide a financial incentive for Victorian 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.

⁵ Under this clause, The AER must publish an explanatory statement that sets out the provisions of the F-factor Scheme Order in Council 2011 and the Rules under or for the purposes of which the f-factor scheme determination, f-factor amount determination or variation of the distribution determination, as the case may be, is required and the reasons for the determination or variation.

- 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).

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:⁶

- 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.
- 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.⁷

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.

⁶ Cl.12, f-factor Order

⁷ Cl.13, f-factor Order

3 Draft decision and public information

We undertook the steps set out below to obtain the relevant information for making the f-factor amount determinations for the five Victorian DNSPs. The process included collecting information from DNSPs through the use of our formal information-gathering powers and publishing public fire start reports prepared by the DNSPs.

3.1 Information collection

3.1.1 Collection of information from DNSPs – f-factor Regulatory Information Notice (RIN)

The RIN is our standard information collection tool under the *National Electricity Law*. The information provided by DNSPs under a RIN is independently audited and signed by an authorised company officer under 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 for 2013. Both our draft and final determinations are based on the information provided under the RINs.

3.1.2 Public fire start reports for public information

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

Reports for 2013 and 2012 are published on our website at <http://www.aer.gov.au/node/20258>.

3.2 Basis and reasons for draft 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 Draft f-factor amount determinations

We followed the method specified by the Order for calculating the f-factor pass through amounts for the Victorian DNSPs. 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 10 June 2014. 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,⁸ 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 three written advices—from The Hon Russell Northe MP, Minister for Energy and Resources, CFA and SP AusNet—that they do not have specific issues with the draft determinations.⁹ 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.

The CFA also suggested future changes to the f-factor scheme to modify the incentive rates to take into consideration the location of the fires (high bushfire risk Vs. low risk areas) and consequences of the fires.¹⁰ We will be considering these suggestions as a part of the next Victorian distribution determination for the 2016-20 regulatory control period.¹¹

⁸ Cl.14(2) of the Order

⁹ All submissions are available from our website at <http://www.aer.gov.au/node/25855>

¹⁰ CFA letter to the AER dated 24 July 2014

¹¹ The incentive mechanism for the current (2011-15) period are pre-determined by the Order,

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)
- SPI Electricity Ptd Ltd ABN 91 064 651 118 (SP AusNet)
- United Energy Ptd 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 DNSPs for their fire start outcomes of 2013. These amounts will be reflected in the distribution tariffs for 2015.

Table 5.1 Final Determinations: f-factor pass through amounts for the fire start outcomes of 2013

DNSP	Pass through amount (\$)	Approximate charge (\$) per customer p.a.
CitiPower	(65,000)	(0.21)
Powercor	(2,405,000)	(3.27)
Jemena	(855,000)	(2.77)
SP AusNet	2,020,000	3.11
United Energy	(70,000)	(0.11)

Note: Numbers in brackets represent negative numbers, indicating penalty for exceeding the relevant fire start target.
 Source: DNSPs' reported fire starts and the AER's f-factor determinations