Final determinations and Explanatory statement

Electricity f-factor scheme 2016–2020
for
Victorian electricity distribution network service providers

June 2017

AUSTRALIAN ENERGY REGULATOR

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
CFA	Country Fire Authority
DNSP	Electricity Distribution Network Service Provider
DELWP	Department of Environment, Land, Water and Planning (formerly the Department of Sustainability and Environment)
ESV	Energy Safe Victoria
MFB	Metropolitan Fire and Emergency Services Board
NER	National Electricity Rules
NEL	National Electricity Law

1 Overview of the f-factor scheme determination

On 22 December 2016, the Victorian Government published the "f-factor scheme order 2016" (the Order).[1] This Order revokes the previous f-factor scheme Order that commenced on 23 June 2011, under which the old f-factor scheme applied, and provides for the establishment of a new f-factor scheme. This new scheme establishes a new incentive mechanism that targets incentives towards fire ignitions that pose the greatest risk of harm through the use of ignition risk units (IRUs).[2] Details of the new scheme and the setting of IRU values are explained in Appendix B of this paper.

While the Order specifies the precise methods to determine the incentive payments (or penalties) under the scheme, we (the AER) are required under clause 8 of the Order to make an f-factor scheme determination on how the incentive payments, or penalties, are to be included in each distributor's maximum allowable revenue each year for the 2016–2020 regulatory control period to give effect to the f-factor outcomes in network charges.

We published a draft decision for stakeholder consultation on this matter in April 2016. Our propose treatment method was that:[3]

- The rewards and penalties under the new f-factor scheme should be treated as an adjustment to the relevant distributor's revenue under the "I-factor" component of the annual revenue requirement calculation formula, because this method is consistent with our Victorian Distribution Determinations for the 2016–2020 regulatory control period.
- Further, since the Victorian Government has now published the new Order, revoking the previous scheme,[4] this f-factor scheme determination for the 2016–2020 regulatory control period will replace the f-factor scheme determination contained in our *Final Decision for Victorian distributors 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

While some submissions provided comments on other matters of the scheme's design, which are outside the scope of our consultation, we have not received any submissions that objected to the above draft decision position. Hence, we confirm that our final decisions remain unchanged from the draft decision.

Structure of this document

The remainder is structured as follows:

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1 http://www.gazette.vic.gov.au/gazette/Gazettes2016/GG2016G051.pdf, Victoria Government Gazette, G 51 22 December 2016, p. 3239.

2 National Electricity (Victoria) Act 2005, f-factor scheme Order 2016, clause 1, Victorian Government Gazette, G 51 22 December 2016, p. 3239.

3 AER, *Draft determinations and Explanatory statement, Electricity f-factor scheme 2016–2020 for Victorian electricity distribution network service providers,* April 2017, pp. 6 and 15.

4 F-Factor Scheme Order 2016, Victoria Government Gazette, G51, 22 December 2016.

- Chapter 2 describes our consultation process and the submissions received.
- Chapter 3 sets out AER's final determinations for each DNSP.
- Appendix A sets out IRU targets for 2016/17 – 2019/20 and Transitional fire start targets for 2018.
- Appendix B provides the details of the new f-factor scheme, including the transitional arrangement to move from the previous calendar year measurement method to a financial year measurement method.

2 Our consultation and submissions

We published the f-factor scheme draft decision on 3 April 2017. In accordance with the Order, we sought comments from Victorian DNSPs, the Victorian Minister for Energy, Environment and Climate Change (the Minister), the Country Fire Authority (CFA), Metropolitan Fire and Emergency Services Board (MFB), the Department of Environment, Land, Water and Planning (DELWP), Energy Safe Victoria (ESV), and the general public. We also provided a longer period for consultation (than the minimum six weeks specified by the Order).

We received six submissions to our draft determinations, from the Minister, ESV, MFB, AusNet Services, Jemena and United Energy. No major issues were raised on our draft determinations.[5]

AusNet Services identified a typographic error on the IRU target for 2019/20,[6] which we have corrected in the final determinations.

Jemena submitted that there is 18 month lag between the actual performance (Jan – Jun 2016) and revenue adjustment (1 Jan 2018), and requested for a compensation for time value of money.[7] MFB submitted that, in considering the appropriate incentive rate and its structure, the AER should consider the costs of fire coverage and the consequential costs to the community of preventable fires.[8]

We consider the issues raised by Jemena and MFB relate to the scheme design, hence are outside of the scope of the consultation—which is limited to how to treat the rewards/penalties arising from the scheme's operation. The scheme design is prescribed in the Order.

As no substantial issues have been raised in the submissions, we will adopt our previously published draft determinations as our final decision on this matter. That is to make revenue adjustment by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for the revenue determinations of Victorian distributors for the 2016–2020 regulatory control period.

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5 Minister for Energy, Environment and Climate Change, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 1 June 2017; Energy Safe Victoria, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 11 April 2017; Metropolitan Fire and Emergency Services Board, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 30 May 2017; AusNet Services, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 25 May 2017; Jemena, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 23 May 2017; United Energy, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 26 May 2017.

6 AusNet Services, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 25 May 2017.

7 Jemena, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 23 May 2017.

8 Metropolitan Fire and Emergency Services Board, Submission to AER draft determination on Electricity f-factor Scheme 2016–2020, 30 May 2017.

3 Our final decisions, f-factor scheme determinations for each of the Victorian distributors

This section outlines the AER's f-factor scheme final determinations for each distributor.

3.1 AusNet Services f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to AusNet Services. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–2020 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order, the revenue adjustment for AusNet Services for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

Notes: See the definition of "relevant financial year" in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Revenue adjustment, Incentive rate, IRU target and ***IRU amount*** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order, the AER determines that the IRU target numbers for AusNet Services are set out in Appendix A.1.

In accordance with clauses 9(3) and 13 of the Order, the revenue adjustment for AusNet Services for the 2018 regulatory year must be determined by the AER as follows:

$$\boldsymbol{Transitional\ adjustment} = \boldsymbol{Transitional\ rate} \times (\boldsymbol{Transitional\ target} - \boldsymbol{Number\ of\ fires})$$

where

i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;

ii. Transitional rate is $25,000.

In accordance with clause 13(1) of the Order, the AER determines that for the 2018 revenue adjustment the fire start target number for AusNet Services is set out in Appendix A.2.

3.2 CitiPower f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to CitiPower. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–2020 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order, the revenue adjustment for CitiPower for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

Notes: See the definition of "relevant financial year" in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Revenue adjustment, Incentive rate, IRU target and ***IRU amount*** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order, the AER determines that the IRU target numbers for CitiPower are set out in Appendix A.1.

In accordance with clauses 9(3) and 13 of the Order, the revenue adjustment for CitiPower for the 2018 regulatory year must be determined by the AER as follows:

$$\boldsymbol{Transitional\ adjustment} = \boldsymbol{Transitional\ rate} \times (\boldsymbol{Transitional\ target} - \boldsymbol{Number\ of\ fires})$$

where

i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;

ii. Transitional rate is $25,000.

In accordance with clause 13(1) of the Order, the AER determines that for the 2018 revenue adjustment the fire start target number for CitiPower is set out in Appendix A.2.

3.3 Jemena f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to Jemena. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–2020 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order, the revenue adjustment for Jemena for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

Notes: See the definition of "relevant financial year" in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Revenue adjustment, Incentive rate, IRU target and ***IRU amount*** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order, the AER determines that the IRU target numbers for Jemena are set out in Appendix A.1.

In accordance with clauses 9(3) and 13 of the Order, the revenue adjustment for Jemena for the 2018 regulatory year must be determined by the AER as follows:

$$\boldsymbol{Transitional\ adjustment} = \boldsymbol{Transitional\ rate} \times (\boldsymbol{Transitional\ target} - \boldsymbol{Number\ of\ fires})$$

where

i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;

ii. Transitional rate is $25,000.

In accordance with clause 13(1) of the Order, the AER determines that for the 2018 revenue adjustment the fire start target number for Jemena is set out in Appendix A.2.

3.4 Powercor f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator

(AER) must make an f-factor scheme determination in relation to Powercor. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–2020 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order, the revenue adjustment for Powercor for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Revenue adjustment, Incentive rate, IRU target and ***IRU amount*** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order, the AER determines that the IRU target numbers for Powercor are set out in Appendix A.1.

In accordance with clauses 9(3) and 13 of the Order, the revenue adjustment for Powercor for the 2018 regulatory year must be determined by the AER as follows:

$$\boldsymbol{Transitional\ adjustment} = \boldsymbol{Transitional\ rate} \times (\boldsymbol{Transitional\ target} - \boldsymbol{Number\ of\ fires})$$

where

i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;

ii. Transitional rate is $25,000.

In accordance with clause 13(1) of the Order, the AER determines that for the 2018 revenue adjustment the fire start target number for Powercor is set out in Appendix A.2.

3.5 United Energy f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to United Energy. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–2020 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order, the revenue adjustment for United Energy for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Revenue adjustment, Incentive rate, IRU target and ***IRU amount*** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order, the AER determines that the IRU target numbers for United Energy are set out in Appendix A.1.

In accordance with clauses 9(3) and 13 of the Order, the revenue adjustment for United Energy for the 2018 regulatory year must be determined by the AER as follows:

$$\boldsymbol{Transitional\ adjustment} = \boldsymbol{Transitional\ rate} \times (\boldsymbol{Transitional\ target} - \boldsymbol{Number\ of\ fires})$$

where

i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year

ii. Transitional rate is $25,000.

In accordance with clause 13(1) of the Order, the AER determines that for the 2018 revenue adjustment the fire start target number for United Energy is set out in Appendix A.2.

A IRU Targets

A.1 IRU Targets for 2019–2022 regulatory year

Clause 10(1) of the Order determines IRU targets for each distributor for each of the relevant financial years as follows:

	AusNet	CitiPower	Jemena	Powercor	United Energy
FY 2016/17	247.7	3.4	9.7	468.0	22.3
FY 2017/18	247.7	3.4	9.7	468.0	22.3
FY 2018/19	247.7	3.4	9.7	468.0	22.3
FY 2019/20	221.1	3.4	9.7	412.8	22.3

Note: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Therefore, the IRU target for FY2016/17 is used to calculate the revenue adjustment for 2019, the IRU target for FY2017/18 is used to calculate the revenue adjustment for 2020, and so on.

Clause 10(2) of the Order provides that the IRU targets for relevant financial years after the 2019/20 financial year may be published by the Minister by notice in the Victoria Government Gazette.

Clause 10(3) of the Order provides that if the Minister does not publish the IRU target for a relevant financial year under subclause (2), the IRU target for that financial year is the same as the IRU target for the 2019/20 financial year as specified in the table in subclause (1).

A.2 Transitional IRU targets for 2018 regulatory year

Clauses 9(3) and 13 of the 2016 Order specify that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2018 regulatory year.

Clause 13 of the 2016 Order specifies that transitional target is the number of fire starts for the first six months of the 2016 regulatory year as specified in the following table:

AusNet	CitiPower	Jemena	Powercor	United Energy
109.0	18.6	50.2	237.2	98.0

B The new f-factor scheme

The new f-factor scheme seeks to incentivise better alignment between the bushfire risk reduction practices and priorities of the distribution businesses and the bushfire risk exposure of the Victorian Community posed by the distribution network.[9]

The new scheme will still provide a symmetrical scheme in terms of rewards or penalties - a revenue adjustment - with respect to the historical performance. However, the benchmark targets for fire starts will be measured differently as will the calculation of reward or penalty amounts.

Under the new scheme, the revenue adjustment is to be arrived at by applying an incentive rate to an ignition risk unit (IRU) target subtracted for pass performance in the form of an IRU amount.[10] The f-factor scheme requires the AER to determine the IRU amount.[11] The incentive rate and IRU target are prescribed.[12]

To determine the IRU amount, the AER will collect fire start information from distributors (fire start reports) and send to Energy Safe Victoria (ESV) for verification annually. ESV will provide a validation report on the accuracy of the data. This validation report is subject to an extensive consultation regime.[13] The AER may have regard to the distributor's fire start report and the validation report to determine the number of fire starts the relevant distributor. The AER will publish the fire start reports and ESV's validation reports each year.

Each determined fire start will then be weighted by a "*location multiplier*" and a "*danger multiplier*" (fire risk)[14]. These are also prescribed in the Order.[15] By applying these two weighting factors to each fire start, the AER can determine the risk factor of each fire start. On this basis the AER can determine the IRU amount, or it may determine the IRU amount using other methods.[16] The IRU amount based on all fire starts within a financial year will be measured against the benchmark IRU target.

The new benchmark targets have been set by the Order based on the historical average of such weighted measures of historical fire starts.[17] The Order also specifies the incentive mechanism, the definitions of the locational and danger factor

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9 Victorian Department of Environment Land Water and Planning, f-factor Incentive Scheme: Regulatory Impact Statement, October 2016, p. 15.

10 Clause 9 of the Order.

11 Clause 11 of the Order.

12 See clause 9(4)(ii) and 9(4)(iii) of the Order.

13 Clause 7 of the Order.

14 Clause 11 of the Order.

15 Clause 11(1) of the Order.

16 Clause 11(3) of the Order.

17 Clause 10 of the Order.

components of the IRU measurement method, and the penalty/reward rate of each IRU unit that is above or below the benchmark target value.[18]

B.1 Revenue adjustment mechanism under the f-factor scheme

The 2016 Order establishes the method to measure and calculate f-factor reward and penalty amounts for the 2019 regulatory year and onwards, based on the distributors' actual fire starts each financial year, and adjusted for danger and location.[19] The f-factor revenue adjustments for 2015, 2016 and 2017 regulatory years are made under the previous f-factor scheme Order. For 2018, there is a 'transitional' f-factor revenue adjustment.[20] We are required by the Order to determine how to adjust the distributors' annual revenue requirements to give effect to these reward and penalty amounts, which will be reflected in the distributors' annual network tariffs.

Clause 9(1) of the 2016 Order specifies that an f-factor scheme determination must establish an f-factor scheme under which there is a revenue adjustment for each Distribution Network Service Provider.

Clause 9(6) of the Order specifies that, for the purposes of a distribution determination, a revenue adjustment under an f-factor scheme is not revenue of, expenditure by or a cost of a Distribution Network Service Provider unless the AER determines otherwise.

Clause 9(4) of the 2016 Order specifies that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2019 regulatory year, and for each subsequent regulatory year, in accordance with the following formula:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

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[18] Clause 9(4) of the Order.

[19] Clause 9(4) of the Order.

[20] Clause 13 of the Order.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

B.2 Parameters of revenue adjustment rates

In accordance with clause 8(1) of the Order, the AER must make an f-factor amount determination in respect of each regulatory control period.

The revenue adjustment will be made by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for Victorian DNSPs for the 2016–2020 regulatory control period.

Under clause 9(5), an f-factor scheme determination may specify how the revenue adjustment is to occur. For the avoidance of doubt and without limitation, the revenue adjustment may –

(a) be by way of a pass through;

(b) be by way of an annual adjustment to be included in the control mechanism for a distribution determination;

(c) be expressed as a percentage adjustment to revenue;

(d) take effect over more than one regulatory year; and

(e) take effect over more than one regulatory control period.

B.3 What are fire starts?

Under clause 5 of the Order, fire starts covered by an f-factor scheme determination are any fire:

(a) that starts in or originates from a distribution system;

(b) started by any tree, or part of a tree, falling upon or coming into contact with a distribution system;

(c) started by any person, bird, reptile or other animal coming into contact with a distribution system;

(d) started by lightning striking a distribution system or a part of a distribution system;

(e) started by any other thing forming part of or coming into contact with a distribution system; or

(f) otherwise started by a distribution system.

B.4 Need for a six-month transitional arrangement

Because of the change to measure fire starts according to financial year, the first six months of 2016 [January-June 2016] were not covered by the new measurement method. Hence, the Victorian Government set a transitional measure and arrangement for this transitional period to the new scheme.

B.4.1 Transitional arrangements for 2018 revenue adjustment

Clauses 9(3) and 13 of the 2016 Order specify that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2018 regulatory year in accordance with the following formula:

$$\boldsymbol{Transitional\ adjustment} = \boldsymbol{Transitional\ rate} \times (\boldsymbol{Transitional\ target} - \boldsymbol{Number\ of\ fires})$$

where

i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;

ii. Transitional rate is $25,000;

iii. Transitional target is the number of fire starts for the first six months of the 2016 regulatory year as specified in the following table:

AusNet	CitiPower	Jemena	Powercor	United Energy
109.0	18.6	50.2	237.2	98.0

iv. Number of fires is the number of fire starts determined under clause 12 to have occurred in the first six months of the 2016 regulatory year.

B.4.2 Revenue adjustment for 2015, 2016 and 2017

Clause 9(2) of the 2016 Order specifies that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2015, 2016 and 2017 regulatory years in accordance with the previous f-factor scheme Order, as if that Order had not been revoked.

B.4.3 Revenue adjustments after 2018

In accordance with clause 9(4) of the Order the revenue adjustment for Victorian distributor for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\boldsymbol{Revenue\ adjustment} = \boldsymbol{Incentive\ rate} \times (\boldsymbol{IRU\ target} - \boldsymbol{IRU\ amount})$$

where

(a) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(b) Incentive rate is $15,000;

(c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(d) IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for each distributor are set out in appendix A.1.