



Draft Decision

ActewAGL distribution determination

2015–16 to 2018–19

**Attachment 11: Service target performance
incentive scheme**

November 2014

© Commonwealth of Australia 2014

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attribution 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications, ACCC, GPO Box 3131, Canberra ACT 2601, or

publishing.unit@accc.gov.au .

Inquiries about this document should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Tel: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@ aer.gov.au

AER reference: 52254

Note

This attachment forms part of the AER's draft decision on ActewAGL's 2015–19 distribution determination. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanism

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection methodology

Attachment 19 – Pricing methodology

Contents

Note	11-3
Contents.....	11-4
Shortened forms	11-5
11 Service target performance incentive scheme	11-7
11.1 Draft decision	11-7
11.1.1 Revenue at risk.....	11-7
11.1.2 Performance targets.....	11-8
11.1.3 Incentive rates	11-8
11.2 ActewAGL's proposal.....	11-9
11.3 AER's assessment approach.....	11-10
11.3.1 Interrelationships	11-11
11.4 Reasons for draft decision	11-12
11.4.1 Applicable components and parameters.....	11-12
11.4.2 Revenue at risk.....	11-12
11.4.3 Reliability of supply component.....	11-13
11.4.4 Customer service component.....	11-20

Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	aggregate service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
CPI-X	consumer price index minus X
DRP	debt risk premium
DMIA	demand management innovation allowance
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

Shortened form	Extended form
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
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 pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

11 Service target performance incentive scheme

We published the current version of our national Service Target Performance Incentive Scheme for electricity DNSPs (STPIS) in November 2009. This scheme provides a financial incentive for distributors to maintain and improve their performance.¹ The STPIS balances the incentive in the regulatory framework for distributors to reduce costs at the expense of service performance. Cost reductions are beneficial to both DNSPs and their customers when service performance is maintained or improved. However, cost efficiencies achieved at the expense of service performance may not be desirable.

The STPIS establishes targets based on historical performance, and provides financial rewards for distributors exceeding performance targets and financial penalties for DNSPs failing to meet targets. These rewards and penalties are calculated by taking into account value of customer reliability (VCR). This aligns the distributors' incentives with the long term interest of consumer, which is consistent with the NEO.

The STPIS has two components, the s-factor component and the guaranteed service levels (GSL) scheme. The s-factor component adjusts the revenue that a distributor earns depending on reliability of supply and customer service performance. The GSL scheme sets threshold levels of service for distributors to achieve and requires direct payment to customers who experience service worse than the predetermined level.

We have not previously applied our national STPIS to the NSW or ACT distributors and we determined that no STPIS would apply to the NSW or ACT distributors in the transitional regulatory control period.² That is, the NSW and ACT distributors are not currently subject to financial penalty or reward through the s-factor component. However, jurisdictional GSL arrangements do apply.

In our stage 2 framework and approach paper, we proposed to apply the s-factor component of our national STPIS to the NSW and ACT distributors for the 2015–19 regulatory control period. We considered this to be suitable given we now have sufficient historical data (collected over the 2009–14 regulatory control period) with which to set service performance targets. We did not propose to apply the guaranteed service level component (GSL) if the NSW and ACT distributors remain subject to jurisdictional GSL arrangements.³

11.1 Draft decision

Consistent with our stage 2 framework and approach paper, our draft decision is to apply the s-factor component of our national STPIS to ActewAGL for the 2015–19 regulatory control period. We will not apply the GSL component to ActewAGL as the existing ACT GSL arrangement will continue to apply. We propose to apply the STPIS to ActewAGL in accordance with the details set out below.

11.1.1 Revenue at risk

The revenue at risk caps ActewAGL's maximum penalty or reward under the STPIS. ActewAGL did not propose to move away from our proposed approach set out in the framework and approach

¹ AER, *Electricity distribution network service providers—service target performance incentive scheme*, 1 November 2009. (AER, *Electricity distribution STPIS*, Nov 2009).

² AER, *Transitional decision for NSW and ACT DNSPs*, 16 April 2014, p. 49.

³ AER, *Stage 2 framework and approach ActewAGL*, January 2014, pp. 14-15.

paper—that is to set the revenue at risk within the range of ± 5 per cent.⁴ We accept ActewAGL's proposal that the revenue at risk for each regulatory year of the 2015–19 regulatory control period will be capped at ± 5 per cent. Within this there will be a cap of ± 0.5 per cent for the customer service component.

11.1.2 Performance targets

Reliability of supply

We will apply the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) of the reliability of supply component to ActewAGL. We accept ActewAGL's proposed 2.5 beta method to derive the major event day threshold (MED) in accordance with Appendix D of the STPIS. However, we do not accept ActewAGL's proposed performance targets for reliability of supply component because ActewAGL has based its performance targets on the minimum standards in the Supply Standards Code. ActewAGL is currently comfortably outperforming the minimum SAIDI and SAIFI levels set out in its jurisdictional regulatory obligation. We have, instead, set ActewAGL's performance targets based on the average performance over the past five regulatory years as per the scheme requirement. Table 11.1 sets out our draft decision on ActewAGL's performance targets for reliability of supply component.

Table 11.1 Our draft decision on ActewAGL's performance targets for the reliability of supply component

Year	2015/16	2016/17	2017/18	2018/19
Unplanned SAIDI				
Urban	30.66	30.66	30.66	30.66
Short rural	47.58	47.58	47.58	47.58
Unplanned SAIFI				
Urban	0.588	0.588	0.588	0.588
Short rural	0.896	0.896	0.896	0.896

Source: AER analysis.

Customer service component

We will apply the telephone answering parameter to ActewAGL. Due to the data problem identified by ActewAGL for the period 1 July 2008 to 30 November 2009, we set the telephone answering target based on the average performance over the past four year at 79.0 per cent.

11.1.3 Incentive rates

The incentive rates represent the penalties or rewards that ActewAGL will receive for each unit of variation in performance from the relevant performance target. We do not accept ActewAGL's

⁴ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 364–365.

proposed VCR, which is based on evidence from the NERA and ANU studies. Instead of applying the proposed VCR, or the VCR prescribed in clause 3.2.2 of the STPIS, we consider the most recent VCR should be applied as it better reflects customers' current value for reliability.

We note that AEMO has carried out a VCR review and has published the final results from this review in September 2014.⁵ We consider the revised AEMO VCR values represent the best available information for this purpose because the review process was comprehensive and included survey of ACT consumers. Hence, we calculated ActewAGL's incentive rates for reliability of supply component based on the latest AEMO VCR for NSW/ACT. Table 11.2 presents our indicative incentive rates to apply to ActewAGL's SAIDI and SAIFI targets.

Table 11.2 Our indicative incentive rates on ActewAGL's reliability of supply targets

Year	Urban	Short rural
Unplanned SAIDI	0.07776	0.00922
Unplanned SAIFI	4.15481	0.52488

Source: AER analysis.

The incentive rate for the telephone answering parameter will be -0.04 per cent per unit of the telephone answering parameter, which is consistent with ActewAGL's proposal and clause 5.3.2 of the STPIS.⁶

11.2 ActewAGL's proposal

ActewAGL broadly accepted our proposed approach to apply the STPIS as proposed in the stage 2 framework and approach paper for the 2015–19 regulatory control period. ActewAGL did not propose to move away from a revenue at risk of ± 5 per cent as set out in our stage 2 framework and approach paper.⁷

For the reliability of supply component, it did not propose to change the method to derive the MED thresholds from our proposed approach. That is the MED thresholds will be calculated using the 2.5 beta method, consistent with Appendix D of the STPIS. However, it proposed following changes to our proposed approach:⁸

- setting the performance targets for the reliability of supply component based on the minimum standards in the ACT Electricity Distribution Supply Standards Code instead of its average performance over the past five regulatory years; and
- using the VCR of \$67.26/kWh based on NERA and ANU studies instead of applying the VCR prescribed in the STPIS.

Table 11.3 below sets out ActewAGL's proposed performance targets and incentive rates for unplanned SAIDI and unplanned SAIFI.

⁵ AEMO, *Value of customer reliability review final report*, September 2014.

⁶ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 377–378.

⁷ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 364–365.

⁸ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 365–377.

Table 11.3 ActewAGL's proposed performance targets for the reliability of supply component

Year	Proposed performance target	Proposed incentive rate (%)
Unplanned SAIDI (minutes)		
Urban	33.46	0.093
Short rural	43.45	0.011
Unplanned SAIFI		
Urban	0.840	3.82
Short rural	1.116	0.47

Source: ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 365; 377.

In relation to customer service component, ActewAGL accepted our approach in the stage 2 framework and approach paper to set telephone answering performance target based on the average performance over the past five regulatory years. It also proposed to apply the incentive rate of -0.04 per cent per unit of the telephone answering parameter consistent with clause 5.3.2(a)(1) of the STPIS.⁹

11.3 AER's assessment approach

In developing and implementing the STPIS, we must take into account:

- (1) the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for Distribution Network Service Providers; and
- (2) any regulatory obligation or requirement to which the Distribution Network Service Provider is subject; and
- (3) the past performance of the distribution network; and
- (4) any other incentives available to the Distribution Network Service Provider under the NER or a relevant distribution determination; and
- (5) the need to ensure that the incentives are sufficient to offset any financial incentives the Distribution Network Service Provider may have to reduce costs at the expense of service levels; and
- (6) the willingness of the customer or end user to pay for improved performance in the delivery of services; and

⁹ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 377–378.

- (7) the possible effects of the scheme on incentives for the implementation of non-network alternatives.

Clause 2.1(d) of the STPIS requires us to determine the following in accordance with the NER and the implementation of the STPIS:

- (1) each applicable component and parameter to apply to a DNSP including the method of network segmentation for the reliability of supply component
- (2) the revenue at risk to apply to each applicable component and parameter
- (3) the incentive rate to apply to each applicable parameter including the value of customer reliability (VCR) to be applied in accordance with clause 3.2.2(d) and appendix B
- (4) the performance target to apply to each applicable parameter in each regulatory year of the regulatory control period
- (5) any decision with respect to the transitional arrangements set out in clause 2.6
- (6) the threshold to apply to each applicable GSL parameter
- (7) the payment amount to apply to the applicable GSL parameter
- (8) the major event day boundary to apply to a DNSP:
 - (a) where the DNSP has proposed a major event day boundary that is greater than 2.5 standard deviations from the mean; or
 - (b) where the major event day boundary that applied to the DNSP in previous distribution determinations was greater than 2.5 standard deviations from the mean; or
 - (c) where the DNSP has proposed a major event day boundary that is greater than 2.5 standard deviations from the mean and where in previous distribution determinations the major event day boundary that has applied to the DNSP was greater than 2.5 standard deviations from the mean.

We have outlined our likely approach to the application of the STPIS in the stage 2 framework and approach paper. We have adopted the position in the framework and approach paper, unless new information has become available which warrant a reconsideration of this position. In such instance, we have considered the relative merits of the alternative against the objectives of the STPIS.

11.3.1 Interrelationships

In applying the STPIS we must consider any other incentives available to the distributor under the NER or relevant distribution determination.¹⁰ One of the objectives of the STPIS is to ensure that the incentives are sufficient to offset any financial incentives the service provider may have to reduce costs at the expense of service levels.¹¹ For the 2015–19 regulatory control period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS).¹² However, for this period we will not

¹⁰ NER, cl. 6.6.2(b)(3)(iv).

¹¹ AER, STPIS, clause 1.5(b)(5).

¹² The Efficiency Benefit Sharing Scheme will not operate for the 2015–19 regulatory control period.

apply the expenditure benefit sharing scheme (EBSS) which applies to opex as we have set the opex allowance exogenously.¹³

The CESS rewards distributors whose capital expenditure becomes more efficient. In setting the STPIS performance targets, we will consider both completed and planned reliability improvements expected to materially affect network reliability performance.¹⁴ By setting the performance targets in such a way, any incentive a distributor may have to reduce the capital expenditure at the expense of target service levels will be curtailed by the STPIS penalty.

We have not funded ActewAGL with capex or opex allowances to improve its supply reliability for the 2015–19 regulatory control period. Therefore if ActewAGL were to improve its reliability, it should fund itself. It will only earn a financial reward from the STPIS if its reliability performance exceeds the determined performance targets. Our proposed incentive rates will ensure that this financial reward is reflective of customers' value on reliability improvement. The STPIS will ensure that any investment decision to improve reliability will be made efficiently after taking into account the VCR. This leads to more efficient investment outcomes that meet the long term interest of consumers.

11.4 Reasons for draft decision

The following section sets out our consideration in applying the STPIS to ActewAGL for the 2015–19 regulatory control period.

11.4.1 Applicable components and parameters

We have stated in stage 2 framework and approach paper that:

- performance targets would be set for both SAIDI and SAIFI under the reliability of supply component, with financial incentives attached to each.
- ActewAGL's network would be divided into urban and short rural feeder categories.
- we will apply the telephone answering parameter under the customer service component to ActewAGL in the 2015–19 regulatory control period.
- we would not apply the GSL component of the STPIS to ActewAGL while the jurisdictional GSL scheme remains in place.¹⁵

As we have not identified any reasons that we should depart from the above positions, we will apply the SAIDI and SAIFI reliability of supply parameters and the telephone answering customer service parameter to ActewAGL. We will not apply the GSL component of the STPIS to ActewAGL in the 2015–19 regulatory control period as the existing ACT GSL arrangement will continue to apply.

11.4.2 Revenue at risk

Revenue at risk caps the potential rewards and penalties that ActewAGL would receive under the scheme. The STPIS allows us to vary the revenue at risk where this would satisfy the objectives of the scheme. We proposed to set the revenue at risk for ActewAGL within the range of ± 5 per cent in

¹³ AER, *Overview, Ausgrid distribution determination 2014-15 to 2018-19*, November 2014

¹⁴ Included in the distributor's approved forecast capex for the subsequent period.

¹⁵ AER, *Stage 2 framework and approach ActewAGL*, January 2014, pp. 14–15.

the stage 2 framework and approach paper. ActewAGL did not propose to move away from a revenue at risk of ± 5 per cent.¹⁶

We accept ActewAGL's proposal that the revenue at risk for each regulatory year of the 2015–19 regulatory control period will be capped at ± 5 per cent. Within this there will be a cap of ± 0.5 per cent for the telephone answering parameter as required by clause 5.2(b) of the STPIS. We consider the STPIS default cap on revenue at risk of 5 per cent is consistent with the objectives of the STPIS.

11.4.3 Reliability of supply component

We will apply unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to ActewAGL for the 2015–19 regulatory control period. Unplanned SAIDI measures the sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers. Unplanned SAIFI measures the total number of unplanned sustained customer interruptions divided by the total number of distribution customers.

Exclusions

The STPIS allows certain events to be excluded from the calculation of the s-factor revenue adjustment. These exclusions include the events that are beyond the control of ActewAGL, such as the effects of transmission network outages and other upstream events. They also exclude the effects of extreme weather events have the potential to significantly affect ActewAGL's STPIS performance.

ActewAGL proposed to calculate MED thresholds using 2.5 beta method in accordance with appendix D of the STPIS.¹⁷ This is consistent with the position in our framework and approach paper.¹⁸ We will apply the exclusions as proposed by ActewAGL and will incorporate calculation of exclusions into the setting of STPIS targets for the final decision.

According to Appendix D of the STPIS, the MED thresholds are calculated at the end of each regulatory year for use during the next reporting period using the 2.5 method by collect values of daily unplanned SAIDI over five sequential regulatory years ending on the last day of the last complete reporting period. Specifically, these values should reflect any exclusion permitted under clause 3.3 and 5.4 of the STPIS. ActewAGL reported several daily unplanned network SAIDI well in excess of 5 minutes for the 2003–08 period. The MED thresholds are usually in the range of 2 to 4, we consider ActewAGL has not removed MED exclusions under clause 3.3(b) as required by the scheme. The accuracy of the 2003–08 unplanned SAIDI data provided in table 6.4.1 of the RIN is important as it is needed to calculate the MED thresholds for the subsequent regulatory years, which form the basis of the STPIS targets.

We sought the revised 2003–08 unplanned SAIDI data from ActewAGL that correctly removed all exclusions in accordance with appendix D of the STPIS. We did not receive the required information from ActewAGL in time for this draft decision. As such, we have taken ActewAGL's calculation for this draft decision, but will seek to set the performance targets for reliability of supply and telephone answering parameters based on our calculated MED thresholds for the final decision.

¹⁶ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 364–365.

¹⁷ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 364–365.

¹⁸ AER, *Stage 2 framework and approach ActewAGL*, January 2014, p. 14.

Performance targets

In the stage 2 framework and approach paper, we proposed to set the performance targets based on ActewAGL's average performance over the past five regulatory years. As we are setting the performance targets for the 2015/16 regulatory year onwards, we consider the most recent data is desirable and it is also consistent with the STPIS. We will use historical data for the 2009/10–2013/14 regulatory years as the base to forecast service performance.

ActewAGL proposed to set the performance targets for the reliability of supply component based on the minimum standards prescribed in the ACT Electricity Distribution Supply Standards Code. It submitted that its proposal is consistent with the AEMC's rule determination on expenditure objectives that require the operating and capital expenditure allowances to be the efficient amounts required to comply with regulatory obligations.¹⁹

We note that, under the NER, the STPIS must provide incentives to *maintain and improve* performance, and not to merely meet regulatory obligations.²⁰ We also note that ActewAGL's past expenditure should have a significant ongoing future effect on its performance. That is, the opex and capex allowances that may be approved for ActewAGL's future expenditure needs, are not the most important determinant of its ability to meet performance targets over the next regulatory control period.

ActewAGL noted the ACT minimum standards are based on total SAIDI and SAIFI, while the performance targets set in the STPIS are based on unplanned SAIDI and SAIFI. It converted the ACT minimum standards to the unplanned equivalent by multiplying each measure by the average proportion of unplanned outages to total levels for that measure over the past five years. It then disaggregated this calculated unplanned SAIDI and SAIFI standards into each feeder type using the number of customers and the average performance over the 2008–13 period on each feeder type.²¹ Its proposed targets for reliability of supply component are set out in Table 11.3.

It is clear from the ACT Electricity Distribution Supply Standard Code that the reliability targets set in Schedule 2 are the "minimum" standards that an electricity distributor is required to achieve.²² We note similar minimum standards are set in the NSW licence conditions for electricity distributors. In its explanatory note, it noted that those network overall reliability standards are to define minimum average reliability performance, by feeder type, for a distributor across its distribution network and provide a basis against which a distributor's reliability performance can be assessed.²³ Such minimum standards should not be treated as the performance targets under the STPIS. Origin supported this view and noted that the Supply Standard Code also permits ActewAGL to set different service levels provided they are advantageous to customers.²⁴

A fundamental principle underlying the STPIS is that it incentivises the distributors to achieve an efficient level of supply reliability in accordance with consumers' value for reliability. Essentially, the distributor needs to ensure that benefits to consumers likely to result from the STPIS are sufficient to warrant any reliability associated investment. As such, it is not reasonable to set ActewAGL's STPIS performance targets at the minimum standard set out in the ACT Supply Standard Code.

¹⁹ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 365–367.

²⁰ NER, cl. 6.6.2

²¹ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 365–369.

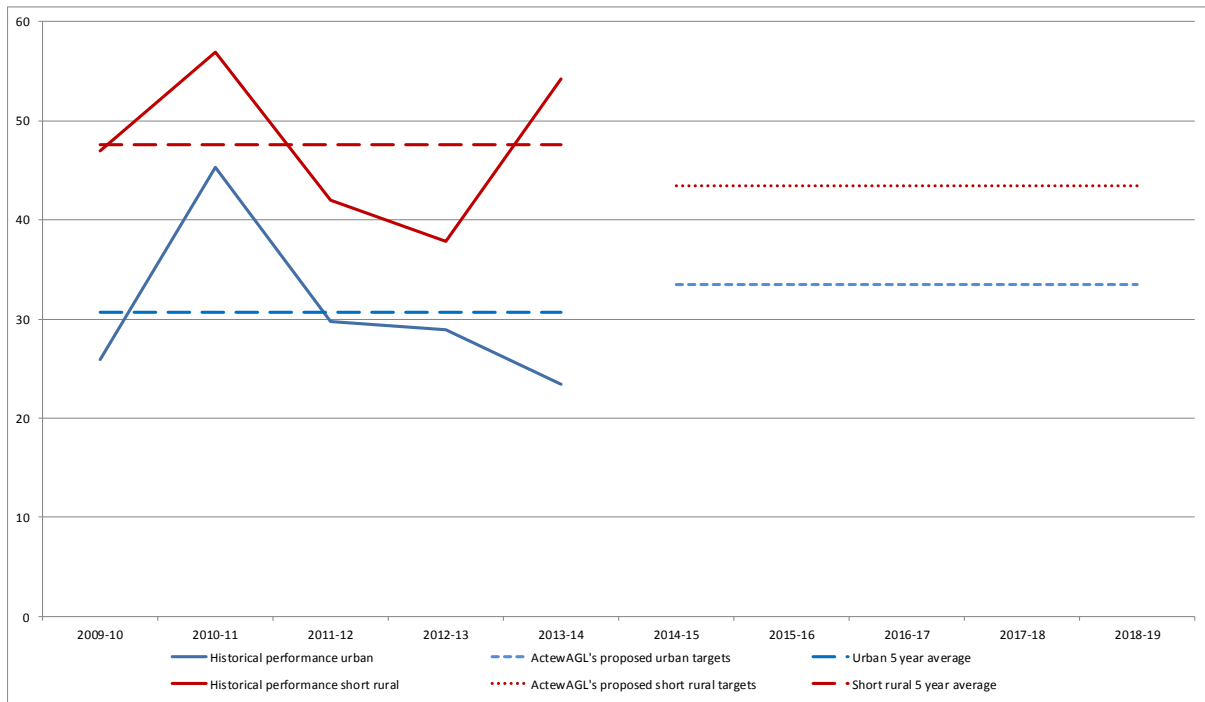
²² ACT Government, *Utilities (Electricity Distribution Supply Standards Code) Determination 2013*, August 2013, p. 7

²³ NSW Government, *Reliability and performance - distributor's licence conditions explanatory note*, 1 July 2014.

²⁴ Origin, *Submission to ActewAGL's regulatory proposal*, 20 August 2014, p. 2.

We note ActewAGL's supply reliability level is high compared to the other Australian distributors in the NEM, partly due to its high ratio of underground distribution networks. On average, ActewAGL has outperformed its proposed jurisdictional unplanned SAIDI and SAIFI targets as illustrated in Figure 11.1 and Figure 11.2, except for the short rural SAIDI. We do not accept ActewAGL's proposed performance targets as they do not meet the STPIS objectives.²⁵ ActewAGL's proposed targets do not take into account its past performance and would provide ActewAGL with windfall gains with no corresponding benefits to consumers.

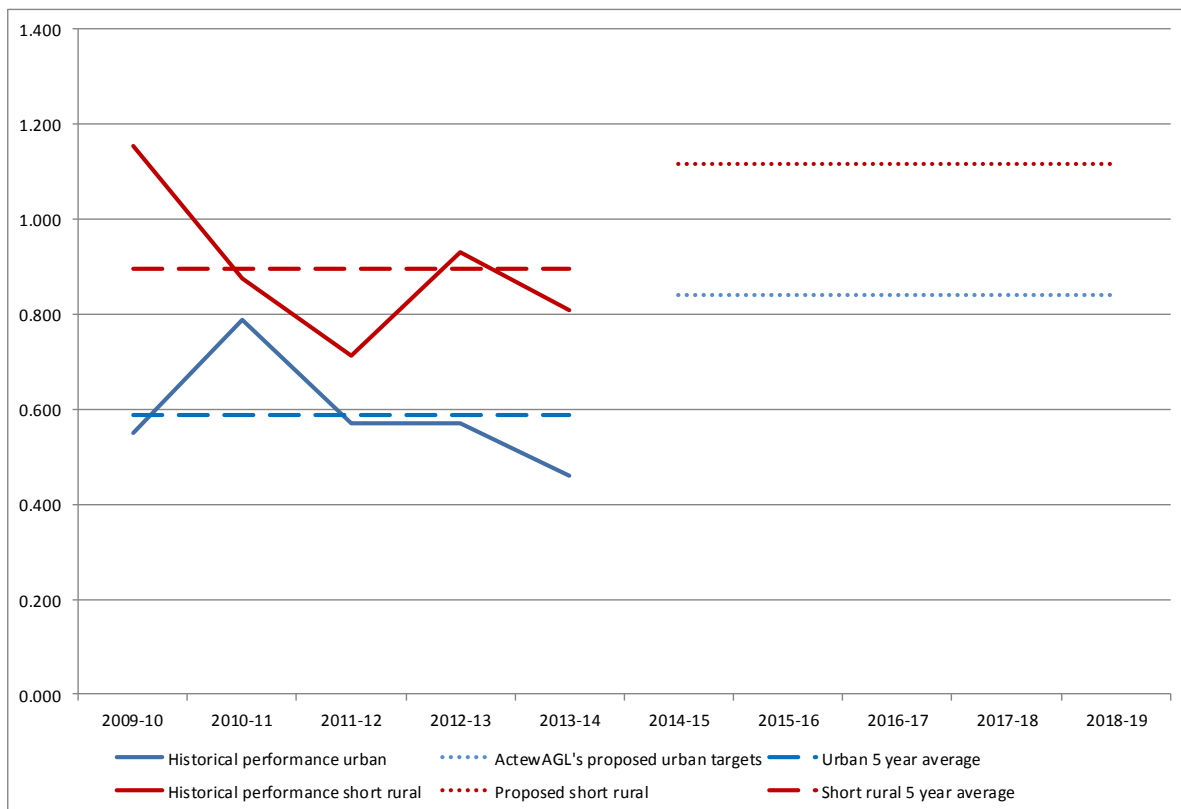
Figure 11.1 ActewAGL's historical SAIDI performance (minutes per customer), 5 year average and its proposed targets



Source: ActewAGL, *Revised ActewAGL RIN tables 6.1–6.3*, 12 September 2014.

²⁵ NER, cl. 6.6.2.

Figure 11.2 ActewAGL's historical SAIFI performance (interruptions per customer), 5 year average and its proposed targets



Source: ActewAGL, *Revised ActewAGL RIN tables 6.1–6.3*, 12 September 2014.

Clause 3.2.1(a) of the STPIS states that performance targets for the reliability of supply parameters must be established with reference to average historical performance modified to account for completed or planned reliability improvements and any other factor expected to materially affect network reliability performance. The key determinant of a distributor's reliability performance is its existing network assets and their configurations, which is the result of the distributor's historical investment and its operating practices. Most of these assets have an expected life in excess of 50 years, therefore by discounting uncontrollable external impacts such as weather variations, the distributor's reliability level should not change abruptly. Setting the performance targets based on historical average and adjusted for the results of completed and planned reliability improvement ensures customers do not pay for historical reliability investment twice.

We have asked ActewAGL to provide the actual standard control expenditure on reliability improvement in the previous regulatory control period in order for us to assess whether we should make adjustment to the proposed performance targets. In response to the information request, ActewAGL identified three completed projects that have the potential to improve customer supply reliability. Table 11.4 sets out the details of these projects, they total to \$660,843.

Table 11.4 Historical reliability improvement capital expenditure identified by ActewAGL (\$, nominal)

Project	2009/10	2010/11	2011/12	2012/13	2013/14	Total
7519211 - Gungahlin - Gungahlin to Gribble feeder tie. Alternative supply arrangement with potential to improve customer supply reliability	51,517	439	0	0	0	51,956
7519764 - Airport Fairbairn feeder upgrade. System security and capacity improvement with potential to improve customer supply reliability.	373,438	148,306	0	0	0	521,744
7521086 - Charnwood S71 Bettington Cct - LV augmentation subs 2258 & 2262. Capacity improvement for potential backup to HV system with potential to improve customer supply reliability.	0	68,095	19,048	0	0	87,143
Total						660,843

Source: ActewAGL, *Response to AER questions - STPIS performance targets*, 28 July 2014, pp. 1–2.

The application of STPIS from 2015–16 onwards will ensure that past capital expenditure that resulted in reliability improvements are retained because customers are paying for such historical investment on an ongoing manner. ActewAGL did not propose a method to account for this past reliability expenditure as it proposed its performance targets should be set based on the jurisdictional minimum reliability standard. We need to take this past reliability expenditure into account in setting the performance targets for ActewAGL.

We consider the impact on reliability outcome of these three projects is small as \$660,843 represents less than 0.1 per cent of ActewAGL's regulatory asset base. The impact of this investment is essentially not material compared to the weather impact on historical performance. We further note that we have not provided ActewAGL with additional capex allowance to improve reliability. As the STPIS only requires the performance targets to be modified by any reliability improvement completed in the previous regulatory period and is expected to result in a material improvement in supply reliability, we propose to set ActewAGL's performance targets based on average performance over the past five regulatory years without modification.

In reviewing ActewAGL's data for the reliability of supply component, we noticed the information provided under sustained interruption to supply did not reconcile with the actual unplanned SAIDI and SAIFI reported under reliability and customer service table. Following our information request, ActewAGL noticed its historical data did not contain single customer premise outages. It updated data in RIN tables 6.2.1, 6.2.2 and table 6.3.1 to reflect the inclusion of the single customer outage statistics.²⁶

We are generally satisfied with the revised reliability of supply data. However as discussed in the previous section, ActewAGL has not correctly reported the historical unplanned SAIDI data for the

²⁶ ActewAGL, *Info request AER ACTEW 030 - STPIS data*, 12 September 2014.

calculation of the MED thresholds and we have not received the revised information from ActewAGL in time for this draft decision. As such, we have set its performance targets for reliability of supply component based on its reported historical telephone answering data for the 2009–14 regulatory years. We will set the performance targets for ActewAGL's unplanned SAIDI and SAIFI based on our calculated MED thresholds for the final decision.

Incentive rates

Clause 6.6.2(b)(3) of the NER stipulates that we must take into account the willingness of the customer to pay for improved service performance when developing and implementing a STPIS. The incentive rates in the STPIS are based on measures of customers willingness to pay for performance, specifically, the value that customers place on supply reliability, referred to as the VCR.

In the framework and approach paper, we proposed to apply the method and VCR values in the STPIS to calculate the incentive rates.²⁷ Clause 3.2.2 of the STPIS allows a distributor to propose an alternative VCR to apply and we need to publish our reasons for deciding to accept or reject the proposal in the distribution determination.

Instead of applying the default VCR in the STPIS, ActewAGL proposed a VCR value of \$67.26/kWh based on two willingness to pay studies undertaken in the ACT—the 2003 NERA and ACNielsen study on both residential and non-residential customers, and the 2012 ANU study on residential customers only. It noted the 2003 NERA study remains relevant today as the 2012 ANU study indicates the residential willingness to pay remains stable after adjusting for inflation. ActewAGL considered the VCR based on these two ACT studies better reflect the preference of ACT consumers as the default VCR values in the STPIS are based on the Victorian studies. The ACT studies also use choice modelling, which ActewAGL submitted is better than direct worth and economic principle of substitution approaches used in the Victorian studies.²⁸

Origin questioned how ActewAGL reflected the preference of its customers in the regulatory proposal as its latest willingness to pay study was conducted in 2011–12 and the customer engagement strategy has not been implemented. It also noted that ACT customer preference would be expected to follow the recent experience in NSW and QLD, which indicated customers do not require future reliability improvements, particularly at the expense of higher prices.²⁹

The CCP did not support ActewAGL's finding that consumers wish to maintain current levels of reliability due to lack of adequate evidence to support such finding. The CCP believed that consumers highly value lower prices and may prefer lower prices even if that meant a greater risk of slightly reduced reliability.³⁰

We note the AEMO has carried out a review of the VCR and published the final results in September 2014. It surveyed approximately 3000 residential, business and direct connect customers across all NEM states, including the ACT. It adopted a survey-based choice modelling and contingent valuation approach to derive the VCR values. Its assessment found that residential VCR values have not substantially changed since the 2007–08 values, however, VCR values for the commercial and

²⁷ AER, *Stage 2 framework and approach ActewAGL*, January 2014, p. 14.

²⁸ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted 10 July 2014), pp. 372–377.

²⁹ Origin, *Submission to ActewAGL's regulatory proposal*, 20 August 2014, p. 2.

³⁰ CCP, *CCP1 submission to AER re ActewAGL' regulatory proposals 2014–19, Jam Tomorrow? - ACT version*, August 2014, pp. 7–8.

agricultural sectors are notably lower than the 2007–08 values. This is the result of increased electricity costs and the implementation of energy efficiency savings by businesses in these sectors.³¹

We propose to apply the 2014 AEMO NSW VCR to calculate the incentive rates for ActewAGL as it better meets the STPIS objective.³² We consider the AEMO's revised VCR values are robust as it has taken meticulous steps to ensure the accuracy of those values. In particular, we note in delivering the final results, the AEMO:³³

- published an Issues Paper in March 2013, seeking stakeholders' submission on how best to determine the VCR and how would the VCR should be applied
- published a Directions Paper in May 2013, setting out its proposal on how best to measure the VCR
- published a Statement of Approach in November 2013, building on the stakeholder feedback and issues raised over the review process, including consultation with the ABS. The Statement of Approach was complemented by a methodology paper provided by Professor Riccardo Scarpa, setting out the underlying survey design and methodology for calculating VCR values based on a choice modelling technique.
- commissioned a market research firm to undertake pilot surveys in November and December 2013
- held a stakeholder workshop in January 2014 to discuss issues arising from the pilot surveys. The AEMO also updated Statement of Approach detailing the changes made to the survey approach in light of the outcomes from the pilot study
- conducted main surveys from March to July 2014 in line with the approach set out in the updated Statement of Approach
- modelled and analysed results in August and September 2014 and sought Dr Bill Kaye-Blake of PwC in NZ to review the final results.

We consider the 2014 AEMO NSW VCR better reflects the willingness of customers to pay for the reliable supply for customers of ActewAGL. This is because the revised AEMO VCR values are based on surveys undertaken in the middle of this year, which would better reveal customers' current value of reliability compared to the 2003 NERA and the 2012 ANU studies. The 2012 ANU study only surveyed residential customers, which cannot represent the entire customer class under ActewAGL's network. As the AEMO found in this review, the VCR values for the commercial and agricultural sectors decreased significantly in recent years. This finding is not captured by the 2012 ANU study. In addition, the sample size of the AEMO surveys is significantly larger than those studies proposed by ActewAGL. The AEMO has also engaged and consulted with stakeholders extensively. As a result, we consider the revised AEMO VCR provides more reliable and robust results than those proposed by the ActewAGL. The revised AEMO VCR values are much lower than the previous values, which is in line with the CCP view that consumers now places less value for reliability.

Our draft decision is not to accept the alternative VCR proposed by ActewAGL. Instead, we will apply a revised AEMO NSW VCR of \$38,350/MWh to calculate ActewAGL's incentive rates for its urban and short rural feeder type. We consider this value better meets the STPIS objectives as it takes into

³¹ AEMO, *Value of customer reliability review final report*, September 2014, pp. 1–3.

³² Note the AEMO NSW VCR includes survey results of consumers of the ACT.

³³ AEMO, *Value of customer reliability review final report*, September 2014, pp. 6–8.

account the most recent customers' willingness to pay for improved performance in the delivery of services. Table 11.2 sets out our indicative incentive rates to apply to ActewAGL's SAIDI and SAIFI targets calculated based on this revised VCR value.

11.4.4 Customer service component

The telephone answering parameter measures the proportion of calls forwarded to an operator that are answered in 30 seconds. In the framework and approach paper, we proposed to apply the telephone answering parameter to ActewAGL and to set the performance target on average performance over the past five regulatory years.³⁴ ActewAGL proposed to apply this approach in setting the telephone answering performance target.³⁵ However, due to ActewAGL's identified data issues with the period from 1 July 2008 to 30 November 2009, we consider the target based on average performance over the past four regulatory years (2010/11 to 2013/14 regulatory years) is more reasonable.

In reviewing ActewAGL's data for the customer service component, we noticed the information provided under the telephone answering table did not reconcile with the actual customer service data reported under the customer service table of the RIN. In particular:

- for the 2008/09 regulatory year, the information provided under telephone answering calculated that 83.7 per cent of calls were answered within 30 seconds, while ActewAGL only reported 70.2 per cent under the RIN table 6.2.5.
- for the 2009/10 regulatory year, the information provided under telephone answering calculated that 80.7 per cent of calls were answered within 30 seconds, while ActewAGL only reported 72.9 per cent under the RIN table 6.2.5.

Following our information request, ActewAGL noticed that the server containing call data from 01/07/2008 to 30/11/2009 was not locatable and its call centre handled both electricity and water issues during that period. The information provided under telephone answering table was the estimates of daily electricity fault calls by applying an average percentage split of electricity and other services based on yearly data from 2010 to 2013.

The STPIS specifies that where five years of data is not available, we may approve a target based upon an alternative method or benchmark where this meets the objectives of the scheme.³⁶ We note there are significant differences between the reported telephone answering data and the underlying daily figures for the 2008/09 and 2009/10 regulatory years. No evidence has come to light that allow us to pick one over the other. Therefore instead of setting the performance target based on average performance over the past five regulatory years, we should discount the data before 2009/10. Based on the historical data from 2010/11 to 2013/14, we set ActewAGL's telephone answering target at 79 per cent as calculated according to Table 11.5. We have also applied the MED exclusions as this is required by clause 5.3.1(b)(1) of the STPIS.

³⁴ AER, *Stage 2 framework and approach paper ActewAGL*, January 2014, p. 14.

³⁵ ActewAGL, *Regulatory proposal 2015–19 subsequent regulatory control period*, 2 June 2014 (resubmitted on 10 July 2014), pp. 377–378.

³⁶ AER, *STPIS*, Clause 5.3.1(d).

Table 11.5 Our proposed telephone answering target for ActewAGL

	2010/11	2011/12	2012/13	2013/14	Proposed performance target – based on 4 year average
Percentage of calls answered within 30 seconds	75.7%	80.1%	77.2%	82.9%	79%

Consistent with ActewAGL's proposal and clause 5.3.2(a)(1) of the STPIS, an incentive rate of -0.04 per cent per unit will apply to ActewAGL's telephone answering parameter.