Revised Proposal Attachment 9.01 - Application of incentive schemes

January 2019

Content

1 OVERVIEW

Ausgrid accepts the Australian Energy Regulator's (AER's) Draft Decision to apply the various expenditure, performance and demand management incentive schemes during the 2019-24 regulatory period.

An important element of the regulatory framework is the application of various incentive schemes to distribution network service providers (DNSPs). The purpose of these schemes is to balance the incentives DNSPs have to undertake efficient capital and operating expenditure across a regulatory period while maintaining appropriate levels of reliability and customer service, as well as considering demand management options. The benefits that flow from more efficient investment and operation of the network are shared with customers via lower prices in future regulatory periods.

The following incentive schemes may be applied to Ausgrid:

- Efficiency benefit sharing scheme
- Capital expenditure sharing scheme
- Service target performance incentive scheme
- Demand management incentive scheme
- Small scale incentive scheme.

The AER is required to publish its proposed approach to incentive schemes in its framework and approach paper.[1]

The National Electricity Rules (NER) require that our proposal contain a description, including relevant explanatory material, of how we propose any incentive scheme that has been specified in the framework and approach paper should apply.[2]

This attachment sets out, for each incentive scheme, our Revised Proposal for the proposed application of the incentive schemes and how we have responded to the AER's Draft Decision and customer feedback. Together, the incentive schemes will help to drive efficiencies and improvements to our reliability and customer service that will ultimately benefit our customers.

[1] NER clause 6.8.1(b)(2).
[2] NER clause s6.1.3.

2 EFFICIENCY BENEFITS SHARING SCHEME

The AER's Draft Decision accepted our proposal to apply version 2 of the Efficiency Benefits Sharing Scheme (EBSS) to Ausgrid for the 2019-24 regulatory period. The AER also accepted our proposal to exclude two cost categories from the calculation of the reward/penalty: debt raising costs and the demand management incentive allowance.

2.1 Overview

The NER requires the AER to publish an EBSS.[3] The EBSS provides DNSPs with a continuous incentive to pursue efficiency improvements in its operating expenditure and provide a fair sharing of these between a distributor and network users. Customers also benefit from improved efficiencies through lower regulated prices in future regulatory control periods.

The EBSS works by providing Ausgrid with a reward (or penalty) of 30% of any opex underspend (or overspend) during the regulatory control period, with the remaining 70% being returned to (or recovered from) customers in the form of lower (or higher) prices.

The EBSS does not currently apply to Ausgrid. In its final decision for the 2014-19 regulatory period, the AER noted that the EBSS is intrinsically linked to the use of a revealed cost forecasting approach for opex, and that where a revealed cost approach is not used for future periods, there is not a strong reason to subject expenditure to the current EBSS. The AER further stated:[4]

> *"We consider Ausgrid will already face an incentive to make efficiency improvements while its actual opex is more than that of a benchmark efficient service provider. We do not need to subject any expenditure to an EBSS to further strengthen its incentives."*

In its Draft Decision, the AER noted that it had relied on Ausgrid's revealed costs as the base year to forecast efficient opex over the 2019-24 regulatory period, as it considered revealed costs in 2017/18 are no longer materially inefficient. Therefore, it considered applying the EBSS would:[5]

> *"result in benefits for electricity customers and it will provide continuous incentives for Ausgrid to reduce opex. This is because, as stated earlier, we have relied on Ausgrid's revealed costs to forecast opex over the 2019–24 regulatory control period."*

2.2 Application to the 2019-24 regulatory period

We accept the AER's Draft Decision to apply the EBSS to Ausgrid for the 2019-24 period.

We also accept the AER's Draft Decision to exclude debt raising costs and the demand management incentive allowance, are excluded from the application of the EBSS. This is explained below.

[3] NER clause 6.5.8(a).
[4] AER, Final Decision, Ausgrid distribution determination 2015-16 to 2018-19, Attachment 9 – Efficiency benefit sharing scheme, April 2015, p9-9.
[5] AER, Draft Decision, Ausgrid Distribution Determination 2019 to 2024, Attachment 8 – Efficiency benefit sharing scheme, November 2018, p8-7.

In its Draft Decision,[6] the AER noted the submissions of CCP10, and explained that the EBSS is an important part of the incentive regulation framework. The AER supports the EBSS along with other tools, such as benchmarking,to incentivise businesses to pursue efficiency improvements in opex.

2.3 Cost exclusions

As noted in our Initial Proposal, in deciding how the EBSS should apply, Ausgrid can propose that certain cost categories be excluded from the calculations of efficiency gains or losses when the EBSS is applied by the AER. The EBSS permits exclusions of cost categories where the AER does not use a single year revealed cost forecasting approach. This is because if such an approach is not used, a different sharing ratio may result, and there is a risk the EBSS may provide windfall gains or losses to a NSP. Excluding certain costs from the EBSS is therefore intended to better share the benefits of efficiency improvements between consumers and DNSPs, and prevent windfall gains or losses arising.

The current version of the EBSS already specifies the following adjustments that the AER will make:[7]

- Adjust forecast opex to add (subtract) any approved revenue increments (decrements) made after the initial regulatory determination. This may include approved pass through amounts or opex for contingent projects
- Adjust actual opex incurred in a regulatory period to add capitalised opex that has been excluded from the RAB (where there has been a change in capitalisation policy)
- Exclude categories of opex not forecast using a single-year revealed cost approach for the regulatory control period at the start of the next regulatory period where doing so better achieves the requirements of clause 6.5.8 of the NER
- Adjust for inflation.

Ausgrid agrees that these adjustments should be made in applying the EBSS. We also accept the AER's Draft Decision to exclude debt raising costs and the demand management innovation allowance mechanism (DMIA) from the application of the EBSS in the 2019-24 regulatory period, asset out in Table 1 below.

Table 1. Proposed cost category exclusions from the EBSS

Cost category	Reason for exclusion
Debt raising costs	Ausgrid intends to adopt the method that the AER uses to derive this cost. That is, debt raising cost will be calculated by applying a benchmark debt raising unit rate to the debt portion of our regulated asset base. Because this is not a revealed cost approach, these costs should not be subject to the EBSS.
DMIA	The DMIA is defined as part of the demand management incentive scheme and under the current arrangements any underspend must be returned to customers in full.

2.4 Base year

As noted by the AER, the operation of the EBSS is intrinsically linked to opex performance over the regulatory period relative to the base year. We therefore consider that the EBSS should be calculated on that basis (i.e. measuring the 2019/20 incremental efficiency gain/loss as the incremental change from 2017/18 through to 2019/20).

[6] AER, Draft Decision – Ausgrid Distribution Determination, 2019 to 2024 – Overview, page 32
[7] AER, Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, November 2013, clause 1.4.

3 CAPITAL EXPENDITURE SHARING SCHEME

We propose the Capital Expenditure Sharing Scheme (CESS) continue to apply to Ausgrid for the 2019-24 regulatory period in its current form. We also propose that the value of the regulatory asset base at the beginning of the next regulatory period is established using forecast depreciation. This is consistent with the AER's proposed approach, as outlined in the Draft Decision.

3.1 Overview

The NER permit the AER to develop a CESS.[8] The CESS provides DNSPs with a continuous incentive to undertake efficient capital expenditure throughout the regulatory period by rewarding efficiency gains and penalising efficiency losses. Customers also benefit from improved efficiencies through lower regulated prices in future regulatory periods.

The CESS works by providing Ausgrid with a reward (or penalty) of 30% of any capex underspend (or overspend) during the regulatory control period, with the remaining 70% being returned to (or recovered from) customers in the form of lower (or higher) prices.

A CESS currently applies to Ausgrid.

3.2 Application to the 2019-24 regulatory period

As outlined in our Initial Proposal, Ausgrid proposes that the mechanism for calculating the penalty or reward under the scheme be calculated in accordance with the AER's guidelines. Under the guidelines, the CESS is applied as follows:

- The AER calculates the cumulative underspend or overspend amount for the current regulatory control period in net present value terms.
- The AER applies the sharing ratio of 30% to the cumulative underspend or overspend amount to work out what the distributor's share of any underspend or overspend should be.
- The AER calculates the CESS payments taking into account the financing benefit or cost to the distributor of any underspend or overspend amounts. The AER can also make further adjustments to account for deferral of capex and ex post exclusions of capex form the RAB.
- The CESS payments are added to or subtracted from the distributor's regulated revenue as a separate building block in the next regulatory control period.

Our proposal is to apply the AER's approach as set out in the AER's F&A paper, which is consistent with the AER's Draft Decision.

Our stakeholders did not express any strong views on the application of the CESS for the 2019-24 regulatory period.

3.3 Depreciation

A key element of the overall capex incentive framework is the depreciation approach to use when a distributor's regulatory asset base (RAB) is updated from forecast capex to actual capex at the end of a regulatory period. In establishing the value of the RAB as at the beginning of the period subsequent to the 2019-24 period, i.e. as at 1 July 2024, the AER

[8] NER clause 6.5.8A.

can decide either to use the depreciation on actual capex (actual depreciation) or the depreciation on forecast capex (forecast depreciation). The choice of depreciation affects the power of the incentives that apply to capital expenditure.

The AER has proposed to use the forecast depreciation approach to establish the value of the RAB as at 1 July 2019 for NSW distributors. The AER considers that this approach, in combination with the CESS, will provide sufficient incentive for the distributors to achieve capex efficiency gains over the 2014-19 period.

3.4 Calculating the reward or penalty

We understand that the AER is still finalising the calculation of the CESS reward within its pro-forma CESS model. We propose that the CESS reward for 2019-24 is calculated consistent with the CESS model we have included in this proposal for capex over/under-spend in the 2014-19 regulatory period. The details of this calculation can be found in Chapter 4 and within the attached CESS model for 2014-19 capex performance.

4 SERVICE TARGET PERFORMANCE INCENTIVE SCHEME

We support the application of the Service Target Performance Incentive Scheme (STPIS), as outlined in the AER Draft Decision, however, we seek to apply the 2018 STPIS amendment and Distribution Reliability Measures Guideline (DRMG) to the 2019-24 regulatory control period.

4.1 Overview

At the time the AER published its Draft Decision, Ausgrid agreed with the AER's proposal to apply its then current version of the STPIS for our 2019-24 regulatory period. However, since the Draft Decision, the AER has released its 2018 amendment to the STPIS. Ausgrid believes it is in the best interests of consumers for the amended scheme to apply to us for the 2019-24 regulatory period. We support the AER's proposed arrangements for the STPIS in their Draft Decision, however, we seek amendments to incorporate the new definitions in the 2018 STPIS and Distribution Reliability Measures Guideline.

4.2 Adoption of 2018 STPIS scheme and Distribution Reliability Measures Guideline

At the time of its draft decision, the new STPIS scheme was not available to the AER for application to Ausgrid's Initial Proposal. In November 2018, the AER published its new STPIS scheme and Distribution Reliability Measures Guideline (DRMG), replacing STPIS 2009. Ausgrid seeks to apply the 2018 STPIS scheme and DRMG to the 2019-24 regulatory period so that our customers do not have to wait 5 years for these reforms to be implemented.

Ausgrid supports the new STPIS scheme and DRMG, as extensive consultation has been undertaken by the AER, and the most recent views of our customers and stakeholders have been captured and incorporated in the latest STPIS.

As outlined in the AER's explanatory note for the STPIS, submissions supported the change from 1 to 3 minute momentary interruptions, as the change will encourage investment in automation facilities and enable distributors to reduce their costs. Additionally, submissions from customer based groups on the SAIDI / SAIFI weighting were in support of the changes to remove the bias towards incentivising network augmentation. Ausgrid is eager to implement an incentive scheme that is supported by customers, stakeholders, and the AER.

Ausgrid believes the new STPIS and DRMG will encourage us to look for ways to restore power faster, including network automation schemes, efficient operational practices, and better utilisation of existing assets.

4.3 Application to the 2019-24 regulatory period

We support the AER's proposed arrangements for application of STPIS to the 2019-24 period including:

- revenue at risk at +/- 5%;
- network segmentation according to CBD, urban, short rural and long rural categories;
- application of SAIDI, SAIFI, and customer service (call answering) parameters;
- performance targets based on 5 year historical average for reliability component and 4 year historical average for customer service component

- application of STPIS methodology for excluding specific events from the calculation of annual performance and performance targets;
- application of 2.5 beta methodology for calculating major event day threshold;
- application of method and values in AEMO's 2014 VCR final report for calculating incentive rates; and
- exclusion of GSL component of STPIS.

We support the AER's proposed arrangements for the STPIS in their Draft Decision, however, in seeking to apply for the new STPIS and DRMG to the 2019-24 regulatory period, we seek amendments to the Draft Decision in the following areas:

- adopt new definition of momentary interruptions from 1 minute to 3 minutes;
- adopt new definition of single phase outage impacts;
- adopt new SAIDI/SAIFI weighting in incentive rates; and
- simplification of s-factor revenue calculation.

In addition, we seek amendment to the way in which VCR has been escalated in the calculation of the incentive rates. This is described in detail below.

4.4 Revenue at risk

As noted above, Ausgrid is proposing to apply the new STPIS for the 2019-24 regulatory period. This includes adopting the revised formula[9] to calculate revenue adjustments for the STPIS results.

The total revenue at risk is the maximum proportion of Ausgrid's annual revenue requirement that is subject to the STPIS. It places a limit on the quantum of the financial incentive.

For the 2014-19 regulatory period the AER decided to apply a maximum revenue at risk of ±2.5%. The AER considered this lower powered incentive would balance the risk to both consumers and Ausgrid and thus better meet the objectives of the STPIS.[10]

As noted in the Initial Proposal, Ausgrid considers that it is appropriate to increase the amount of revenue at risk to ±5% for the 2019-24 regulatory period. This is consistent with the AER's final F&A paper,[11] and the Draft Decision.[12]

Our Revised Proposal is to put forward ±0.5% of revenue at risk under the customer service metric. This is in line with the AER's STPIS Guideline for the telephone response parameter of the scheme.[13] The remaining ±4.5% of revenue at risk will relate to our performance under the reliability metric.

[9] AER, Service Target Performance Incentive Scheme v 2.0, December 2018, Appendix C, p.34
[10] AER, Ausgrid Final Decision 2015-19, Attachment 11 – Service target performance incentive scheme, April 2015, p.12.
[11] AER, Framework and Approach: Ausgrid, Endeavour Energy and Essential Energy, Regulatory Control Period commencing 1 July 2019, July 2017, p60.
[12] AER, Ausgrid 2019-24 Draft Decision, Attachment 10: Service target performance incentive scheme, November 2018, p. 10-9
[13] AER, Service Target Performance Incentive Scheme v 2.0, December 2018, clause 5.2(b)

4.5 Reliability targets

Under the AER's 2017 Framework and Approach, the two parameters to apply to Ausgrid's reliability component of the STPIS are SAIDI and SAIFI, and targets are set for each of the 4 feeder types, as CBD, Urban, Short Rural and Long Rural. The AER has supported Ausgrid's proposal to calculate SAIDI and SAIFI targets based on 5 year historical reliability performance. We have updated the targets to include reliability performance data from FY18, as this data was not available at the time of our Initial Proposal.

4.6 Reliability data

In adopting the new STPIS, we have back-cast our historical performance to incorporate the new definitions for momentary interruptions and single phase outage impacts. Our back-cast data and process has been verified by an independent auditor, and the audit report can be seen in attachment 9.03.

The process for extracting historical reliability data for setting STPIS targets against the new STPIS has not been changed, only slightly amended to accommodate the new definitions. Our reliability data and processes are audited annually by IPART against our distribution licence conditions.

Outages captured by Ausgrid with a duration of less than 1 minute are currently defined as momentary interruptions. Under the new definition proposed by the AER in its revised STPIS and DRMG, a momentary interruption is any interruption less than 3 minutes in duration. Our process for identifying interruptions which are to be defined as momentary interruptions is audited as part of our annual Licence Condition audit. An adjustment of the momentary trigger to 3 minutes in our reporting systems is the only change required to the data to adopt the new definition. An independent audit verified our back-cast data for 3 minute momentary interruptions has the same degree of accuracy as data produced under the prior definition.

Single phase outages are currently captured by Ausgrid as impacting 100% of customers, regardless of how many phases are affected in the interruption. This approach is conservative, as single phase outages may not impact all customers. Under the new STPIS, single phase outages are to be reported as impacting 33% of customers for LV and 67% of customers for HV. Outage data is entered manually in our OMS system, including phases impacted in the interruption. As Ausgrid has not previously been audited on phases impacted for outages, there remains some room for improvement in data capture process. An independent auditor verified that Ausgrid can back-cast historical single phase outages within +/-5% accuracy for LV single phase events, and +/-10% accuracy for HV single phase events, which is deemed reasonable for back-cast purposes.

Historical reliability data, as reported in the annual RIN, can be difficult to reproduce, as Ausgrid will amend outage records if an error is been identified, even after the reporting period is closed. The reliability data was re-run for the purposes of back-casting, and compared to the data provided in the RIN for each financial year. The discrepancy between the current data in our systems and reported figures for each financial year from FY14-FY18 was no more than 1% in all feeder categories for both SAIDI and SAIFI, with three exceptions – FY14 Long Rural SAIFI, FY17 Long Rural SAIFI, FY14 CBD SAIDI.

- The discrepancy for Long Rural SAIFI in FY14 and FY17 was found to be 2%, which the independent auditor deemed to be a reasonable level of accuracy for back-cast purposes.
- The discrepancy for historical FY14 CBD SAIDI was found to be 38%, which the auditor deemed to be a data anomaly. Further investigation by Ausgrid revealed that a single CBD outage impacting a single customer in FY14 was recorded as being out for 1 month instead of 1 day. With the exception of this single data error, the remaining CBD data for

FY14 has less than a 1% discrepancy. The corrected data has been reflected in our back-cast historical performance and STPIS targets for the CBD in our revised proposal.

4.7 STPIS targets

For the purposes of the 2019-24 regulatory period, targets for unplanned SAIDI and unplanned SAIFI for each network type are set on the basis of our historic performance over the past five regulatory years. The raw historical data used to calculate the targets is set out in the table below. The raw data has had exclusions under clause 3.3 and Appendix D of the STPIS applied.

Table 2. Back-cast reliability data for 2013/14 – 2017/18 utilising new STPIS definitions

	2013/14	2014/15	2015/16	2016/17	2017/18
Unplanned SAIDI					
CBD	3.66	7.47	7.50	14.49	12.34
Urban	59.37	53.76	59.56	66.59	60.28
Short rural	150.73	142.96	124.52	112.31	109.28
Long rural	430.59	327.78	571.94	813.05	337.23
Unplanned SAIFI					
CBD	0.011	0.071	0.010	0.033	0.063
Urban	0.685	0.512	0.573	0.606	0.604
Short rural	1.388	1.225	1.045	1.064	0.932
Long rural	3.096	1.662	2.680	3.390	1.528

Ausgrid's proposed performance targets for the 2019-24 regulatory control period are set out in the table below.

Table 3. Proposed SAIDI and SAIFI for the 2019-24 regulatory period

	2019/20	2020/21	2021/22	2022/23	2023/24
Unplanned SAIDI					
CBD	9.09	9.09	9.09	9.09	9.09
Urban	59.91	59.91	59.91	59.91	59.91
Short rural	127.96	127.96	127.96	127.96	127.96
Long rural	496.12	496.12	496.12	496.12	496.12
Unplanned SAIFI					
CBD	0.038	0.038	0.038	0.038	0.038
Urban	0.596	0.596	0.596	0.596	0.596
Short rural	1.131	1.131	1.131	1.131	1.131
Long rural	2.471	2.471	2.471	2.471	2.471

4.8 Incentive rates

The incentive rates for unplanned SAIDI and unplanned SAIFI are calculated in accordance with clause 3.2.2 of the STPIS for each network type. Ausgrid uses the formulae provided in Appendix B of the STPIS. The sources for input parameters required in the formulae are set out in the table below.

Table 4. Explanation of parameters

Parameter	Source/calculation method
VCR	As described in section 4.4.4 below
CPI	CPI as applied to regulatory price setting
W_n	Weighting for unplanned SAIDI and unplanned SAIFI in Table 1 of the STPIS (2018)
C_n	The expected average annual energy consumption by network type for the 2019-24 regulatory control period. This is calculated according to the following method:[14] 1. Calculate the 2017-18 annual energy consumption for each network type (by summating the energy consumption of active customers connected to each network type) 2. Determine the ratio of energy consumption of each network type to total energy consumption. 3. Multiply the forecast total energy delivered in 2019-20 (from Ausgrid's completed regulatory template 3.4) by the ratio from step 2 for each network type. 4. Repeat steps 3 for regulatory years 2020-21 to 2023-24 5. Calculate the expected average annual energy consumption for the 2019-20 to 2023-24 regulatory period for each network type.
R	The average of Ausgrid's smoothed distribution revenue in real dollars. This is sourced from attachments 4.01 and 4.02
$SAIDI_n$	The average of Ausgrid's proposed unplanned SAIDI targets for the 2019-24 regulatory control period.
$SAIFI_n$	The average of Ausgrid's proposed unplanned SAIFI targets for the 2015-19 regulatory control period.

Ausgrid's proposed incentive rates are set out in the table below, noting that incentive rates will require recalculation once the revenue requirements have been determined by the AER. The proposed incentive rates capture the new definition of SAIDI/SAIFI weighting in the 2018 STPIS.

Table 5. Incentive rates

	Incentive rate
Unplanned SAIDI	
CBD	0.0069
Urban	0.0575
Short rural	0.0073
Long rural	0.0001
Unplanned SAIFI	
CBD	1.1061
Urban	3.8559
Short rural	0.5481
Long rural	0.0123

4.9 Value of customer reliability

We agree with the AER approach to using the AEMO 2014 VCR report as a basis for calculating STPIS incentive rates, however, in its Draft Decision, the AER escalated the dollars to the October 2018 dollar value. We believe that the escalation should be in accordance with the STPIS scheme and escalated to the start of the regulatory period, using

[14] Ausgrid does not forecast energy consumption by network type.

the best available escalation factor available at the time of the determination. In calculating the incentive rates, Ausgrid have escalated VCR to the forecast June 2019 dollar value.

Our revised proposal contains updated VCR figures, based on the same underlying source adopted by the AER in the draft decision, however escalated to June 2019 figures in accordance with the intent of the STPIS. This escalation uses measure inflation as per the Australian Bureau of Statistics reports, and forecast inflation from the Reserve Bank of Australia as of November 2018. This is consistent with the AER's approach to escalation in its Opex modelling in the draft decision.

Our revised VCR figures for the purposes of STPIS are as follows:

Feeder Category	$/MWh September 2014	$/MWh June 2019
CBD*	$44,170	$47,848
Other	$38,850	$41,543

*Indexed historical values for VCR have been used pending further consideration following completion of AER VCR Review in 2019

4.10 Customer service targets

Currently there is one customer service target that applies to Ausgrid under the STPIS. This is the telephone answering parameter, which measures the proportion of calls forwarded to an operator that are answered in 30 seconds.

4.11 Proposed customer service performance targets

Our Initial Proposal sought to calculate our target for the telephone answering parameter using our past performance in the last three years from FY14 to FY17.

While clause 5.3.1(a) of the STPIS which applied at the time of our Draft Decision stated that five years of data should be used to set our performance target, the AER accepted our proposed approach to use three years. It stated:

> For this draft decision, recognising Ausgrid did not have its own call centre prior to the 2014-15 regulatory year, we have calculated Ausgrid's customer service target to be based on actual performance over the last three years of 2014-15 to 2016-17.[15]

The AER further noted that although our telephone response performance in FY18 was not available at the time of its Draft Decision, this data would be available for its Final Decision. It stated: 'For the final decision, the performance target will be updated to include the last four regulatory years, following the end of the 2017-18 regulatory year'.[16]

Our performance under the telephone answering parameter in the last four years is set out in Table 6. From FY15 to FY18, it shows that the proportion of calls forward to an operator that were answered within 30 seconds has answered 81%.

Table 6. Customer service metric – Telephone response metric

	FY15	FY16	FY17	FY18	Average
Performance	84%	80%	79%	82%	81%

[15] AER, Ausgrid Final Decision 2019-24, Attachment 10 – Service target performance incentive scheme, November 2018, p.10-12.
[16] AER, Ausgrid Final Decision 2019-24, Attachment 10 – Service target performance incentive scheme, November 2018, p.10-12.

In developing our Revised Proposal, we have had regard to all four years of data. We have, however, formed the view that more weight should be placed on the last three years (FY16 to FY18). In taking this approach, we have calculated a telephone response target in the 2019-24 period of 80%. Our Revised Proposal is set out in full in Table 7.

Table 7. Proposed customer parameter targets for the 2019-24 regulatory period

Customer service parameter	2019/20	2020/21	2021/22	2022/23	2023/24
Number of calls received	154,589	145,314	136,595	128,399	120695
Number of calls answered within 30 seconds	123,887	116,251	109279	102719	96556
Percentage of calls answered within 30 seconds	80%	80%	80%	80%	80%

We consider our Revised Proposal should be accepted for two main reason. First, while providing a telephone answering service is still essential for many customers, increasingly customers expect to be able to find the information they need online. In recognition of this, we have upgraded our website to make it easier for customers to be able to find the information they need. This includes real-time access to outage information, and the ability for customers to be able to report outages online. Consistent with this, we have experienced a reduction in call volumes over the last two years. We expect this trend to continue.

Second, our stakeholders are concerned that the number of telephone calls answered within 30 seconds is not a meaningful customer service metric. As discussed in the next section, we are working with our stakeholders to develop a new, more meaningful target.

For these reasons, we do not consider it appropriate for Ausgrid to be incentivised to invest in additional resources, at additional costs to our customers, to support a service that is declining in use. A shift in customer expectations to be able to find and report information online, combined with recognition that the current customer performance target is not meaningful, suggests that we could be adding greater value to our customers in other areas of our service performance. While we do not currently have an appropriate replacement parameter, we do not consider that it is in our customers' long term interests to continue to invest in the existing measure.

For these reasons, and based on our historical performance with the majority of weight on the last two financial years, we consider that our revised telephone answering target should be 80% of calls answered within 30 seconds (excluding MED).

The raw historical data on a past performance is set out in Ausgrid's completed regulatory RIN templates 6.1 and 6.2. The raw data has had exclusions under clause 5.4 of the STPIS applied.

4.12 Telephone answering data

Telephone answering data for reporting purposes is captured from the Ausgrid Contact Centre in a number of Genesys tables from 6:30am to 10:00pm and in an Alcatel Application (CCSupervision) from 10:00pm to 6:30am.

Interactive Insights is the reporting application that combines both the Genesys and Alcatel data and provides a combined result across all queues and call types. Once run in Interactive Insights, filters are applied to the report to exclude any calls not relating to Emergency and Hazards, including Network Enquiries and Business to Business and internal Property calls.

4.13 Exclusions

Ausgrid proposes that where a reliability exclusion occurs, this should also be excluded from the calculation of telephone answering performance. This is consistent with the scheme which states that where the impact of an event is to be excluded from the calculation of a revenue increment or decrement under the 'reliability of supply' component as provided for in clause 3.3, the impact of that event may be excluded from the calculation of a revenue increment or decrement for the 'telephone answering' parameter as appropriate.

4.14 Incentive rates

We propose to use the AER's incentive rate for the 'telephone answering' parameter of -0.040% per unit of the 'telephone answering' parameter. This is consistent with clause 5.3.2 of the scheme.

4.15 Development of a new customer service metric

We consider improvements can be made to the current STPIS. In the course of our engagement, stakeholders have indicated that the telephone response time metric is not a meaningful indicator of customer service. Based on this feedback, we are in the process of working with stakeholders in exploring better measures of customer service. An option which stakeholders have found appealing is running a pilot scheme in parallel with the STPIS, which requires us to report on a new performance metric. This pilot scheme would not have any revenue at risk placed under it. However, the data we report in relation to it could be used to introduce targets for a new customer and stakeholder engagement performance metric in later regulatory control periods.

The proposed form of the new customer service performance metric is discussed in Chapter 9 of our Regulatory Proposal.

5 DEMAND MANAGEMENT INCENTIVE SCHEME AND INNOVATION ALLOWANCE

In the AER's Draft Decision our proposal to apply both the Demand Management Incentive Scheme (DMIS) and DMIA to Ausgrid for the 2019-24 regulatory period was accepted.

5.1 Overview

The NER requires the AER to develop a DMIS and a DMIA.[17] The DMIS is intended to provide DNSPs with an incentive to undertake efficient expenditure on relevant non-network options relating to demand management. The DMIA is intended to provide distributors with funding for research and development in demand management projects that have the potential to reduce long term network costs. Together, the DMIS and DMIA should provide benefits to customers by reducing network costs over time, lowering prices in future regulatory periods.

The rules requiring the AER to develop the DMIS and DMIA only took effect in 2016. However, an earlier version of the DMIS applied to Ausgrid's current regulatory period. Under this earlier scheme, Ausgrid was awarded an innovation allowance of $1m per annum, with any underspend returned to customers.

5.2 Application to the 2019-24 regulatory period

We accept the AER's Draft Decision to apply the new DMIS to Ausgrid. By providing incentives to undertake efficient expenditure on relevant non-network solutions the need for network investment may be deferred or removed. This plays an important role in promoting efficient price and non-price outcomes in the long term interests of consumers.

We also accept the AER's Draft Decision to continue to provide Ausgrid with an innovation allowance. As discussed in Chapter 9 of our Initial Proposal, Ausgrid has effectively utilised the innovation allowance in the current regulatory period to deliver a number of innovative trials and projects that have the potential to be applied more broadly. These projects have the potential to reduce our costs and in turn the prices that customers face over the longer term.

5.3 Application of the DMIS

Ausgrid accepts that the DMIS should be applied in accordance with the AER's Demand Management Incentive Scheme published in December 2017. That is, a cost multiplier specified in the version of the scheme that is in effect at the time an eligible project becomes a committed project should be applied to a committed project. We note that the current scheme allows for a 50% multiplier.

As noted in our Initial Proposal, Ausgrid already conducts an economic assessment of demand management options. Our approach ensures that only efficient options would proceed under the DMIS by assessing the net benefit from the project, including the financial incentives provided under the DMIS, to ensure that applying this scheme will deliver net cost savings to retail customers. This is consistent with the NEO and the DMIS's objective in terms of reducing the costs of operating our network, leading to lower prices for customers in the long term. This is also consistent with our objective of making our prices more affordable, and sustainable where we are able to employ low carbon alternatives to network investment.

[17] NER clauses 6.6.3 and 6.6.3A.

5.4 Application of the DMIA

Ausgrid accepts that the DMIA should be applied in accordance with the AER's Demand Management Innovation Allowance Mechanism, published in December 2017.[18] That is, the DMIA for each year of the regulatory period should be calculated as the sum of:

- $200,000 (in 2017 dollars, escalated by CPI to account for inflation)
- 0.075% of our AAR, as determined as part of this distribution determination.

Our calculation of the amounts to apply in each year are shown in Table 7:

Table 8. Demand management innovation allowance ($ million, real FY19)

	2019/20	2020/21	2021/22	2022/23	2023/24
Real ARR*	1,533.3	1,549.7	1,564.4	1,571.0	1,543.4
ARR x 0.075%	1.1	1.2	1.2	1.2	1.2
Base amount	0.2	0.2	0.2	0.2	0.2
Total	1.4	1.4	1.4	1.4	1.4

* Excluding remittal and shared assets adjustments

The DMIA will provide additional funding to trial innovative demand management projects with the potential to reduce long-term network costs, consistent with the demand management innovation allowance objective set out in the NER. The DMIA will only be used where we are not able to obtain funding for R&D through other means. We will also share our findings publicly, ensuring that both industry and customers can understand and benefit from project outcomes.

Applying the DMIA will contribute to the NEO by providing us with the ability to trial projects that will reduce the cost of operating our network over the long term. In turn, this will reduce prices for our customers.

[18] AER, *Demand Management Innovation Allowance Mechanism, Electricity distribution network service providers*, December 2017

6 SMALL SCALE INCENTIVE SCHEME

We do not propose the application of a small scale incentive scheme.

The NER permit the AER to develop a small-scale incentive scheme.[19] To date, the AER has not developed a small scale incentive scheme. For this reason we do not propose the application of any small-scale incentive scheme.

[19] NER clause 6.6.4(a).