



# **FINAL DECISION**

## **Energex Distribution Determination 2020 to 2025**

### **Attachment 10 Service target performance incentive scheme**

June 2020

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## Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Energex for the 2020–25 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

### Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

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# 10 Service target performance incentive scheme

Under clauses 6.3.2 and 6.12.1(9) of the National Electricity Rules (NER) our regulatory determination must specify how any applicable service target performance incentive scheme (STPIS) is to apply in the next regulatory control period.

This attachment sets out our final decision on how we will apply the STPIS to Energex for the 2020–25 regulatory control period.

## AER's service target performance incentive scheme

We published the current version (version 2.0) of our national STPIS in October November 2018.<sup>1</sup> The STPIS is intended to balance incentives to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to distributors to maintain and improve service performance where customers are willing to pay for these improvements.

## AER draft decision on the approach to the application of STPIS

In our draft decision, we stated that we will continue to apply the distribution STPIS to Energex in the next (2020–25) regulatory control period. We proposed to:

- set revenue at risk at  $\pm 2$  per cent
- segment the network according to the CBD, urban and short feeder categories
- apply the system average interruption duration index or SAIDI, system average interruption frequency index or SAIFI and customer service (telephone answering) parameters
- set performance targets based on Energex's average performance over the past five regulatory years
- apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets
- apply the method and value of customer reliability (VCR) values as published in our Values of Customer Reliability Final report on VCR values.
- not apply the Guaranteed Service Level (GSL) component as Energex remains subject to a jurisdictional GSL scheme.<sup>2</sup>

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<sup>1</sup> AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018. (AER, *STPIS v2.0*, November 2018).

<sup>2</sup> AER, *Draft Decision Energex Distribution Determination 2020 to 2025 Attachment 10 Service target performance incentive scheme*, October 2019, pp. 9–11.

## 10.1 Final decision

Our final decision is to apply the STPIS to Energex for the 2020–25 regulatory control period. This is consistent with our draft decision on the application of the STPIS and our 2020–25 determinations for Energy Queensland.

We have taken into account Energex's revised revenue proposal, submissions raised by stakeholders and our draft decision in reaching our final decision.<sup>3</sup> Our response to the matters raised by Energex about the application of STPIS is discussed below.

Table 10.1 and Table 10.2 present our final decision on the applicable incentive rates and targets that will apply to Energex for the 2020–25 regulatory control period. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.<sup>4</sup>

**Table 10.1 Final decision—STPIS incentive rates for Energex for the 2020–25 regulatory control period**

	CBD	Urban	Short rural
SAIDI	0.00299	0.06515	0.01649
SAIFI	0.16386	4.06025	1.18387

Source: AER analysis.

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<sup>3</sup> Energex, *Revised Regulatory Proposal 2020–25*, December 2019, pp. 47–50; AER, *Draft Decision Energex Distribution Determination 2020 to 2025 Attachment 10 Service target performance incentive scheme*, October 2019, pp. 9–11.

<sup>4</sup> AER, *STPIS*, November 2009, cl. 5.3.2(a).

**Table 10.2 Final decision—STPIS reliability targets for Energex for the 2020–25 regulatory control period**

	Value
<b>CBD</b>	
SAIDI	6.614
SAIFI	0.0805
<b>Urban</b>	
SAIDI	59.847
SAIFI	0.6402
<b>Short rural</b>	
SAIDI	136.820
SAIFI	1.2702
<b>Telephone answering</b>	
Percentage of calls will be answered within 30 seconds	88.08

Source: AER analysis.

## 10.2 Energex’s revised proposal

Energex's revised revenue proposal accepted our draft decision on how STPIS will apply, with one exception—that there was an error in our calculation model to adjust the performance targets where actual reliability performance exceeded the two per cent of revenue at risk cap.<sup>5</sup> Our response to this issue is at section 10.4 of this final decision.<sup>6</sup>

## 10.3 Assessment approach

We are required to make a decision on how the STPIS is to apply to Energex.<sup>7</sup> When making a distribution determination, the STPIS requires us to determine all

<sup>5</sup> The STPIS caps the possible monetary reward or penalty for Energex to 2 per cent of its annual revenue requirement. Where a distributor's actual performance exceed the revenue cap for the reward or penalty, the performance targets for the next (2020–25) regulatory control period are adjusted to account for the excess or shortfall in historical performance.

<sup>6</sup> Energex, *Revised Regulatory Proposal 2020–25*, December 2019, pp. 49–50.

<sup>7</sup> NER, cl. 6.12.1(a).

performance targets, incentive rates, revenue at risk and other parameters under the scheme.<sup>8</sup>

## 10.4 Reasons for final decision

We will apply the STPIS to Energex in accordance with our scheme. This include using the latest 2019 reliability data to calculate Energex's performance targets for the next regulatory control period.

The following section sets out our detailed consideration on applying the STPIS to Energex for the 2020–25 regulatory control period.

We received no submissions from stakeholders regarding the application of STPIS.

### 10.4.1 Revenue at risk

Revenue at risk caps the potential reward and penalty for Energex under the STPIS. We consider an incentive of  $\pm 2.0$  per cent of the annual allowable revenue is appropriate for Energex because it has demonstrated strong reliability performance; hence, a  $\pm 2.0$  per cent limit is a good balance between the incentives to maintain reliability versus consumer price impact.

### 10.4.2 Reliability of supply component

#### Applicable components and parameters

We will apply unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to Energex's feeders for the 2020–25. 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 specified in the STPIS, such as the effects of transmission network outages and other upstream events. They also exclude the effects of extreme weather events that have the potential to significantly affect Energex's underlying STPIS performance.

Energex proposed to calculate the major event day threshold using the 2.5 beta method in accordance our draft decision.

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<sup>8</sup> AER, *STPIS*, November 2018, cl. 2.1(d).



## Performance targets

The STPIS specifies that the performance targets should be based on the average performance over the past five regulatory years. It also states that the performance targets must be modified for any reliability improvements completed or planned where:

- the planned reliability improvements are included in the expenditure program proposed by the network service provider and
- it is expected to result in a material improvement in supply reliability.<sup>9</sup>

For the next (2020–25) regulatory control period, this final decision includes \$22.6 million capital expenditure to improve the reliability of worst performing feeders to meet its regulatory obligation.<sup>10</sup> Energex explained that:<sup>11</sup>

- The purpose of this expenditure is to improve the customer experience, but does not specifically aim to correct the feeder performance to become favourable against the applicable Minimum Service Standards limit.
- The improvement program will provide negligible performance improvement at the average system SAIDI and SAIFI index level.

We consider that the impact on reliability outcomes of these activities is small as this expenditure represents less than 0.2 per cent of Energex's regulatory asset base. Further, the impact of this investment is not material compared to the weather impact on historical performance. Since the STPIS only requires the performance targets to be modified by any reliability improvement planned for the next (2020–25) regulatory control period where it is expected to result in a material improvement in supply reliability, we propose to set Energex's performance targets based on average performance over the past five regulatory years without modification.

We received no submissions from stakeholders regarding the application of Energex's performance targets.

Our calculated performance targets for Energex for the 2020–25 regulatory control period are presented in Table 10.2.

### **Adjusting the performance targets where past STPIS reward/penalty is capped by revenue at risk limit of the previous distribution determination**

Under the STPIS, distributors can adjust their performance targets where the past performance exceeded the revenue at risk thresholds. Energex's revised regulatory proposal submitted that our calculation for this adjustment contained an error—in which the adjustments were inadvertently applied twice in the calculation model.<sup>12</sup>

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<sup>9</sup> AER, *STPIS v2.0*, November 2018, cl. 3.2.1(a)(1A).

<sup>10</sup> Energex, *Regulatory proposal Strategic Proposal Worst Performing Feeder 2020–25*, January 2019, p. ii.

<sup>11</sup> Energex, *Regulatory proposal Strategic Proposal Worst Performing Feeder 2020–25*, January 2019, p. 2.

<sup>12</sup> Energex, *Revised Regulatory Proposal 2020–25*, December 2019, pp. 49–50.

We have corrected this mistake and recalculated the relevant performance target adjustments accordingly.

The final decision STPIS performance targets for the next regulatory control period include actual performance data for the 2019 regulatory year and adjusts the customer service component to account for actual performance exceeding the revenue at risk cap.

### 10.4.3 Customer service component

The STPIS customer service target applicable to Energex is telephone response measured as the number of telephone calls answered within 30 seconds. This measure is referred to as the telephone Grade of Service. The revenue at risk for the customer service component is capped at  $\pm 0.2$  per cent.

We received no submissions from stakeholders regarding the application of Energex's customer service performance target.

Our calculated performance targets for Energex for the 2020–25 regulatory control period are presented in Table 10.2.

#### Value of customer reliability to calculate the incentive rates

Our draft decision stated that we will apply the latest value for VCR through the distribution determination in calculating Energex's incentive rates.<sup>13</sup> Energex provided energy usage information based on Australian Energy Market Operator's load classification of residential, commercial, industry and agriculture. Hence, for this final decision, we have calculated Energex's VCR for the incentive rates by using our Value of Customer Reliability Review published in December 2019.

The VCR for network segments is outlined in Table 10.3. We have applied this VCR to calculate Energex's incentives rates for 2020–25.

**Table 10.3 Value of customer reliability (\$/MWh)**

	CBD	Urban	Short rural
VCR	45,062.93	40,518.17	40,518.17

Source: AER, *Value of customer reliability review, final report*, December 2019, p. 17 and 71; VCR values has been escalated to the December 2019 quarter.

### 10.4.4 Incentive rates

The incentive rates applicable to Energex for the reliability of supply performance parameters of the STPIS have been calculated in accordance with clause 3.2.2 and

<sup>13</sup> AER, *Draft Decision Energex Distribution Determination 2020 to 2025 Attachment 10 Service target performance incentive scheme*, October 2019, p. 11.

using the formulae provided at appendix B of the National STPIS v2.0. Our final decision on Energex's incentive rates is set out in Table 10.1. The incentive rate for the customer service component will be  $-0.040$  per cent per unit of the telephone answering parameter.<sup>14</sup>

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<sup>14</sup> AER, *STPIS v2.0*, November 2018, cl. 5.3.2(a).

## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
distributor	distribution network service provider
NER	National Electricity Rules
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
VCR	value of customer reliability

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