



Final determinations

F-factor amount determinations for 2012

for

Victorian electricity distribution network service providers

30 August 2013

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Shortened forms

AER	Australian Energy Regulator
DNSP	Electricity Distribution Network Service Provider
NER	<i>National Electricity Rules</i>
NEVA	<i>National Electricity (Victoria) Act 2005</i>
ESV	Energy Safe Victoria
the Order	<i>f-factor scheme order 2011</i>

1 Summary

On 24 June 2010, the Victorian Parliament passed the *Energy and Resources Legislation Amendment Act 2010*. The Act amended the *National Electricity (Victoria) Act 2005* (the NEVA) to introduce an 'f-factor scheme'. The Victorian Government published the f-factor scheme order 2011 (the Order) on 23 June 2011 under the NEVA.

The scheme provides incentives for Distribution Network Service Providers (DNSPs) to reduce the risk of fire starts due to electricity infrastructure, and to reduce the risk of loss or damage caused by fire starts.¹ The Order prescribes that, for the first four years of the scheme (2012-15), DNSPs will be either rewarded or penalised at the pre-determined incentive rate of \$25,000 per fire for performing better or worse than their respective targets.

The Order requires us (the AER) to set the fire start targets for 2012-15 on the basis of a historical average and to determine the annual reward/penalty amounts for this period, at the rate of \$25,000 per fire.

On 22 December 2011, we made our f-factor scheme final determination. This set the fire start benchmark target for each Victorian DNSP. As required by the Order, the targets were based on the average of historical fire starts of each DNSP over the five previous calendar years — that is, the average of 2006-10.²

The Order also requires us to publish a draft "f-factor amount determination" for consultation before determining the final reward or penalty amounts each year.³

On 20 June 2013, we published a draft determination on the proposed f-factor outcome amounts for each DNSP for the 2012 calendar year for consultation.

We received one submission, from Jemena, on the draft determination.

Final decision

This decision confirms our draft decision. Under our determination, each of the Victorian DNSPs will receive a reward under the scheme as their actual number of fire starts for the 2012 year were below that of their respective fire start targets. This will mean a small increase in network tariffs of between \$0.03 to \$3.16 for the 2014 calendar year, depending on a customer's distribution area. The table below provides further details of the payments to each DNSP and the average impact on customers' network charges for 2014.

The f-factor is an incentive scheme. DNSPs can only retain their rewards for sustained and continuous improvements. Once improvement is made, the benchmark fire-start targets will be tightened in future years. Should their performance deteriorate, these rewards will be refunded to customers.

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

² Under cl.8 of the Order

³ Under cl.12 of the Order

Table: f-factor pass through amounts & increase in 2014 annual network tariff as result of fire start performance of 2012

DNSP (distributor)	Pass through amount (\$)	Approximate charge (\$) per customer p.a.
CitiPower	10,000	0.03
Powercor	2,470,000	3.50
Jemena	370,000	1.20
SP AusNet	1,970,000	3.16
United Energy	980,000	1.54

2 Introduction

2.1 The f-factor scheme

The f-factor scheme is intended to provide a financial incentive for DNSPs to reduce the number of fire starts in their distribution networks. For the first four years (2012–15), DNSPs will be either rewarded or penalised at the incentive rate of \$25,000 per fire for performing better or worse than their respective fire start targets.

After the first period, the AER may vary the incentive rates and mechanism of the scheme, such as applying different targets for different parts of the network.

The following sections explain how the financial rewards and penalties arising from the f-factor scheme will be applied.

Revenue adjustment mechanism under the f-factor scheme

Clause 7(2) of the Order specifies that, based on the actual fire starts in comparison with the target number of fire starts each year (t-2), the f-factor scheme shall result in adjustments to DNSPs' revenue for year (t)—that is two years later. Hence, the revenue adjustment will start from 2014 based on the actual outcome of 2012. The adjustment will be in the form of:

$$\text{Revenue adjustment}_{t,n} = \sum_{m=1}^q \text{Incentive rate}_{t-2,n,m} \times (\text{Target no. of fires}_{t-2,n,m} - \text{Number of fires}_{t-2,n,m})$$

where the distribution system is made up of q parts and—

- a. Revenue adjustment_{t,n} is the adjustment to the revenue for Distribution Network Service Provider n for regulatory year t.
- b. Incentive rate_{t-2,n,m} is the incentive rate for part m of distribution system n for regulatory year t-2, determined in accordance with clause 10 or 11 as the case may be.
- c. Target no. of fires_{t-2,n,m} is the fire start target for regulatory year t-2 for part m of distribution system n, determined in accordance with clause 8.

The targets for each DNSP for 2012-15 are the respective average of the fire starts during the five year period (2006-10).

- d. Number of fires_{t-2,n,m} is the number of fire starts in relation to part m of distribution system n that occurred in regulatory year t-2, determined in accordance with clause 9.

2.2 Rules for f-factor amount determinations

The AER must make:⁴

- an f-factor amount determination with respect to the proposed reward/penalty amounts proposed to be passed through in the regulatory years that commence on 1 January 2014 and 1 January 2015.

⁴ Cl.12, f-factor Order

Note: The pass through amount for 2014 is based on the actual fire starts of 2012 (the year "t-2")

- an f-factor amount determination no later than 30 September in the regulatory year prior to the regulatory year in which the amount is proposed to be passed through.

The amount must be determined in accordance with the following formula.⁵

$$\text{Pass through amount}_{t,n} = \text{Incentive rate}_{t-2} \times (\text{Target no. of fires}_{t-2,n} - \text{Number of fires}_{t-2,n})$$

Where,

- (a) Pass through amount_{t,n} is the amount for Distribution Network Service Provider n for regulatory year t which may (but does not have to) be expressed as a percentage adjustment to the revenue of the Distribution Network Service Provider;
- (b) Incentive rate_{t-2} is \$25,000;
- (c) Target no. of fires_{t-2,n} is the fire start benchmark for regulatory year t-2 for distribution system n, determined in accordance with clause 8; and
- (d) Number of fires_{t-2,n} is the number of fire starts in relation to distribution system n that occurred in regulatory year t-2, determined in accordance with clause 9.

2.3 Purpose of this paper

This paper sets out our final determination of the Victorian DNSPs' f-factor reward or penalty amounts for the 2012 calendar year, after consideration of the submission to the draft determination. It also provides an explanatory statement for the purpose of clause 14(2) of the Order. This paper sets out our:

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

⁵ Cl.13, f-factor Order

3 AER's draft decision and public information

We undertook the steps set out below to obtain the relevant information for making the proposed f-factor amount determinations for the five Victorian DNSPs. The process included collecting information from DNSPs using our formal information-gathering powers. We also sought public fire start reports from each DNSP. And, we sought submissions as required by the Order and the NER.

3.1 Information collection

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

The RIN is our standard information collection tool under the *National Electricity Law*. The information provided by the DNSPs under a RIN is independently audited and signed by an authorised company officer under a statutory declaration.

We issued a fire start reporting RIN to each DNSP in November 2012. In accordance with this RIN, the DNSPs provided their fire start information by 30 April 2013. Both our draft and final determinations are based on the information provided under the RINs.

3.1.2 Public fire start reports for public information

Under clause 5(1) of the Order, we may request public fire start reports. In August 2012, we requested these reports from the DNSPs to increase transparency of fire start information. These reports were published on our website, as required by clause 5(5) of the Order.

Whilst the AER can publish information received through a RIN either by seeking consent from the DNSPs or by applying a public interest test, since the public fire start reports provided by the DNSPs are published on the AER's website, and contain sufficient information for stakeholders to identify recorded fire starts, we have decided not to publish the information contained in the RINs.⁶

3.2 Basis and reasons for draft decision

We applied the fire start information provided under the RINs as the basis for our decisions because this is the best information available to us, which has been independently audited. The f-factor amount determinations are calculated using the relevant formula specified by the Order.

3.3 Draft f-factor amount determinations

We followed the method specified by the Order for calculating the f-factor pass through amounts shown in (Table 2.1) for the Victorian DNSPs.

⁶ The AER is currently consulting on the process for information disclosure of information reported through RINs in future under the "Better Regulation" project <http://www.aer.gov.au/Better-regulation-reform-program>.

Table 3.1 Draft Determinations: f-factor pass through amount

DNSP	Fire start target determined by the AER ⁷	DNSPs' reported number of fire starts for 2012 ⁸	Difference between target and reported number of fire starts ⁹	Incentive rate (\$)	(Draft) pass through amount (\$)
CitiPower	30.4	30	0.4	25,000	10,000
Powercor	401.8	303	98.8	25,000	2,470,000
Jemena	56.8	42	14.8	25,000	370,000
SP AusNet	256.8	178	78.8	25,000	1,970,000
United Energy	124.2	85	39.2	25,000	980,000

Source: DNSPs' reported fire starts and the AER's f-factor determination

⁷ More information about the AER's December 2011 determination of the DNSPs' fire start targets is available in its final f-factor scheme determination <http://www.aer.gov.au/node/13069>.

⁸ Details of these fires are available at <http://www.aer.gov.au/node/20258>.

⁹ A positive result means that performance was better than the target; a negative result means performance worse than the target.

4 Consultation and submissions to the draft decision

We published the draft f-factor amount determinations and explanatory statement on 20 June 2013. In accordance with the Order and the NER and provided more than 30 business days for stakeholders to make submissions.

As required by the Order,¹⁰ we also sent specific invitations for written submissions to the Minister for Energy and Resources, the Department of Environment and Primary Industries (DEPI), Energy Safe Victoria (ESV), the Metropolitan Fire Brigade (MFB), the Country Fire Authority (CFA), and the Victorian DNSPs.

We received one submission to our draft determinations, from Jemena. It agreed with the pass through amount we proposed for Jemena in the draft determinations.

¹⁰ Cl.14(2) of the Order

5 Final f-factor amount determinations

Under clause 12 of the Order, we must make f-factor revenue adjustment determinations in relation to:

- CitiPower Pty Ltd ABN 76 064 651 056 (CitiPower)
- Jemena Electricity Networks (Vic) Ltd ABN 82 064 651 083 (Jemena)
- Powercor Australia Ltd ABN 89 064 651 109 (Powercor)
- SPI Electricity Ptd Ltd ABN 91 064 651 118 (SP AusNet)
- United Energy Ptd Limited ABN 70 064 651 029 (United Energy)

We have not received any submissions that would lead us to amend our draft determinations. Therefore, we adopt the proposed pass through amounts in the draft determination as our final determination.

Table 4.1 shows our final f-factor amount determinations for each of the Victorian DNSPs for their fire start results of 2012. These amounts will apply to the distribution tariffs of 2014.

Table 5.1 Final Determinations: f-factor pass through amounts

DNSP	Pass through amount (\$)	Approximate impact per customer per year (\$)
CitiPower	10,000	0.03
Powercor	2,470,000	3.50
Jemena	370,000	1.20
SP AusNet	1,970,000	3.16
United Energy	980,000	1.54

Source: AER