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Jemena Electricity Networks (Vic) Ltd

2021-26 Electricity Distribution Price Review - Revised Proposal

Attachment 06-01

Response to the AER's draft decision - Incentive schemes

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Glossary

2016 Order	F-factor scheme order 2016
asset base	Regulated asset base
current regulatory period	The regulatory control period covering 1 January 2016 to 31 December 2020
draft decision	The draft decision on the determination that will apply to setting JEN's distribution prices for the next regulatory period
initial proposal	The initial regulatory proposal to the AER for the setting of regulated pricing for JEN for the next regulatory period
intervening period	The regulatory period covering 1 January 2021 to 30 June 2021
IRU performance	Comparing the actual IRU calculated in in each regulatory year against an IRU target
next regulatory period	The regulatory control period covering 1 July 2021 to 30 June 2026
revised proposal	The revised regulatory proposal to the AER for the setting of regulated pricing for JEN for the next regulatory period
standard control services	The electricity distribution services provided using JEN's shared electricity network. Per the National Electricity Rules definition, a standard controls service is a direct control service that is subject to a control mechanism based on a DNSP's total revenue requirement

Abbreviations

AER	Australian Energy Regulator
CESS	Capital Expenditure Sharing Scheme
CY	Calendar Year
DMIAM	Demand Management Innovation Allowance Mechanism
DMIS	Demand Management Incentive Scheme
EBSS	Efficiency Benefit Sharing Scheme
F&A	Framework and Approach Paper
FY	Financial Year
GSL	Guaranteed Service Level
IRU	Ignition Risk Unit
JEN	Jemena Electricity Networks
MAIFI	Momentary Average Interruption Frequency Index
MAIFIe	Momentary Average Interruption Frequency Index event
MED	Major Event Days
PTRM	Post Tax Revenue Model
RFM	Roll Forward Model
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
STPIS	Service Target Performance Incentive Scheme
VCR	Value of Customer Reliability
WACC	Weighted Average Cost of Capital

Overview

This document sets out Jemena Electricity Networks (Vic) Ltd's (**JEN**) revised proposal (**revised proposal**) for incentive schemes over the 2021-26 regulatory control period (**next regulatory period**). It is an update to our initial regulatory proposal of 31 January 2020 (**initial proposal**) and focuses on providing updated or new information and addresses issues outlined in the Australian Energy Regulator (**AER**) 2021-26 draft decision (**draft decision**).

In our initial regulatory proposal, we proposed to retain the Efficiency Benefit Sharing Scheme (**EBSS**) and the Capital Expenditure Sharing Scheme (**CESS**) which apply to JEN in the 2016-2020 regulatory control period (**current regulatory period**). Together the EBSS and CESS provide continuous and balanced incentive to identify and deliver efficiency improvements.

We also proposed to retain other smaller incentives which apply to JEN in the current regulatory period.

Table OV–1 summarises the revenue adjustments we propose for the next regulatory period to: (i) account for the operation of incentive schemes in the current regulatory period for the CESS and EBSS and; (ii) create an allowance for the Demand Management Incentive Allowance Mechanism (**DMIAM**).

Table OV–1: Summary of the financial outcomes by incentive [5 year totals] - ($2021, $M)

	Initial Proposal	Draft Decision	Revised Proposal
EBSS	23.6	25.1	25.1
CESS	25.6	38.3	38.2
DMIAM	2.0	2.0	2.0
Total	**51.2**	**65.3**	**65.2**

Note: Our revised proposal amounts vary from the draft due to changes in the rate of return and CPI.

For the next regulatory period, we propose to retain the EBSS, CESS, Services Target Performance Incentive Scheme (**STPIS**), Demand Management Incentive Scheme (**DMIS**) and to introduce the DMIAM. We do not propose to introduce a Small Scale Incentive Scheme or Customer Service Incentive Scheme.

We recognise the AER's decision on whether to apply the EBSS is tied to a decision on whether to accepted JEN's overall operating expenditure proposal as being efficient.

Customer impacts

What this means for our customers

Incentive regulation is a key feature of the Australian energy regulatory framework,[1] it seeks to align the rewards and penalties that a distribution business operates under with services a customer receives. JEN supports this framework, especially when the framework results in a sharing of be benefits between us and our customers.

The benefits to our customers are tangible:

- For our performance in the current regulatory period our CESS reward is $38.2M ($2021), however, our customers share is substantially higher at $124M ($2021).
- Under the EBSS scheme our reward is $25.1M ($2021). Calculating the benefit to our customers is more complex, suffice to say it is more than double that accrued to JEN.

[1] National Electricity Law, s. 7A(3).

At the same time of having expenditure rewards, our network performance has not deteriorated over the current regulatory period, indicating, our customers have clearly benefited from these incentive schemes.

We propose to continue these schemes into the next regulatory period so that we can continue to provide future rewards to our customers.

JEN's response to the draft decision

Table OV–2 provides a summary of the key incentive scheme outcomes outlined in the AER's draft decision and our response to each of these positions. Unless stated otherwise, all dollar values are expressed on a real 2021 basis.

Table OV–2: Description of the AER's position and JEN's response

Draft decision item	AER position	JEN response
EBSS carryover amounts accrued during the current regulatory period	The AER draft decision covered EBSS carryover amounts accrued over the current regulatory period and the six month period between the current regulatory period and the next regulatory period (**intervening period**). The AER made several adjustments to our initial regulatory proposal including: • updating the estimate for CY19 operating expenditure with actual CY19 reported operating expenditure • removing exclusions from actual operating expenditure in CY14 and CY15 that do not apply to the current regulatory period • updating estimated inflation inputs to convert amounts into real 2020–21 dollars • deferring the half-year 2021 EBSS carryover amount accrued to the beginning of 1 July 2021.	JEN **accepts** the AER's draft decision. We have updated the EBSS carryover amounts using the latest WACC inputs to align with the revised forecast in the PTRM.
EBSS applicability to the next regulatory period	The AER set aside the EBSS for the next regulatory period because it did not base its forecast operating expenditure on JEN's revealed costs.	JEN has provided further evidence on why the AER can rely on its revealed costs to set forecast operating expenditure allowance for the next regulatory period. If the AER accepts JEN's revised operating expenditure proposal, then it should reinstate the EBSS for the next regulatory period.

Draft decision item	AER position	JEN response
CESS	The AER updated the CESS model to reflect changes made in the Roll Forward Model (**RFM**) and Post Tax Revenue Model (**PTRM**). Adjustments included: • Replacing our CY19 estimate of net capital expenditure with actual CY19 net capital expenditure to align with the inputs in the RFM • Updating actual CPI inputs for CY16 and HY21 to align with the approach taken in the RFM • Updating actual HY21 Real Vanilla WACC to align with inputs in the RFM • Updating forecast CPI and WACC inputs in line with changes made to the draft decision PTRM • Updating capital expenditure deferred to the following regulatory after consultation during the information request process.	JEN **accepts** the AER's draft decision. We have updated the CESS carryover amounts using the latest WACC inputs to align with the revised forecast in the PTRM.
CESS applicability to the next regulatory period	Consistent with the Framework and Approach paper (**F&A**)[2] and our initial proposal, the AER accepted our position to apply the CESS in the next regulatory period.	JEN **accepts** the AER's draft decision.
DMIS and DMIAM	In December 2017, the AER published a new DMIS and DMIAM.[3] In the final F&A, the AER stated the new DMIAM mechanism is to apply in the next regulatory period for all Victorian electricity distributors.[4]	JEN **accepts** the draft decision. We have also updated the DMIA forecast to reflect changes to the revised proposal annual revenue requirement.
STPIS	The draft decision accepted our initial proposal to apply the STPIS 2.0 for the next regulatory period in accordance with the F&A. However, in the initial proposal, we only used four years of historical data to calculate the indicative performance targets, noting that the targets will be updated using five years of historical data in the revised proposal. The draft decision also excluded the adoption of the Guaranteed Service Level (**GSL**) scheme in the STPIS as is the approach during the current regulatory period.	JEN **accepts** the AER's draft decision. We have updated the targets and incentive rates for information from CY19.
f-factor scheme	The AER accepted our proposal to implement the f-factor scheme, consistent with the 2016 order. However, the AER adopted an Ignition Risk Unit (**IRU**) target of 4.2 (rather than our proposal target of 9.7) as gazetted by the Minister for Energy, Environment and Climate Change	JEN **accepts** the AER's draft decision.

2 AER, *Final framework and approach, AusNet Services, Citipower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019. Note that the date for commencement of the 2021-26 regulatory period is 1 July 2021.

3 AER, *Demand management incentive scheme, Electricity distribution network service providers*, December 2017.

4 AER, *Final framework and approach, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, pp. 86-88.

Supporting materials

Additional information supporting JEN's positions is outlined in

Table OV–3

Table OV–3: Additional documents supporting this submission

Document reference	Document details
Attachment 06-01	This document
Attachment 03-01M	JEN – 03-01M SCS PTRM FY22-26 – 20201203 – Public
Attachment 06-01M	JEN – 06-01M EBSS Model – 20201203 – Public
Attachment 06-02M	JEN – 06-02M CESS Model – 20201203 – Public
Attachment 06-02	JEN – 06-02 AER draft decision - STPIS Incentive rates and targets – revised - 20201203 - Public

1. Revised proposal incentive forecast

Our revised proposal incentive forecast for the next regulatory period is $65M, which is approximately $0.05M lower than the AER's draft decision, and $14M higher than our initial regulatory proposal.

Table 1.1 provides a comparison of JEN's proposed incentive scheme revenue with both the AER's draft decision and our initial regulatory proposal.

Table 1–1: Summary of the financial outcomes by incentive [5 year totals] – ($2021, $M)

	Initial proposal	Draft decision	Revised proposal
EBSS	23.6	25.1	25.1
CESS	25.6	38.3	38.2
DMIAM	2.0	2.0	2.0
Total	**51.2**	**65.3**	**65.2**

Note: Our revised proposal amounts vary from the draft due to changes in the rate of return and CPI

Our revised proposal incentive forecast reflects:

- updates to the rate of return forecast as a result of updating return on debt inputs for the most recent set of market observables; and
- changes related to updated capital expenditure and operating expenditure forecasts.

2. Efficiency Benefits Sharing Scheme

For the EBSS, there are two key issues for consideration:

- the amount of revenue adjustment for the next regulatory period to account for the operation of incentive scheme in the current regulatory period; and
- whether the EBSS should apply during the next regulatory period.

2.1 Revenue adjustment for EBSS performance in the current regulatory period

2.1.1 AER's position from the draft decision

The draft decision covered EBSS carryover amounts accrued over the current regulatory control period and the intervening period.

The AER made several adjustments to our initial regulatory proposal including to:

- update the estimate for CY19 operating expenditure with actual CY19 reported operating expenditure
- remove exclusions from actual operating expenditure in CY14 and CY15 for items not applicable to the current regulatory period
- update estimated inflation inputs with actual inputs to convert amounts into real 2020–21 dollars and
- defer the half-year 2021 EBSS carryover accrued to the beginning of 1 July 2021.

2.1.2 JEN's position in the revised proposal

JEN accepts the changes made to the EBSS model in the draft decision and has prepared a revised proposal model with updated WACC inputs. The updates in this revised proposal have had an immaterial impact on the carryover amounts.

Table 2–1: Summary of the revised EBSS forecast – ($2021, $M)

	FY22	FY23	FY24	FY25	FY26	Total
Initial Proposal	8.1	6.5	4.9	2.1	2.1	23.6
Draft Decision	10.0	6.5	4.8	1.9	1.9	25.1
Revised Proposal	**10.0**	**6.5**	**4.8**	**1.9**	**1.9**	**25.1**

2.2 Application of the EBSS in the next regulatory period

The AER rejected our initial proposal to apply the EBSS to the next regulatory period as it applied an efficiency adjustment to base (i.e., revealed) operating expenditure. This decision would be the first decision since privatisation in 1995 where a regulator has determined not to apply an efficiency incentive scheme to a Victorian DNSP.

Our revised proposal maintains our initial proposal position that our 2018 base year is efficient once we account for OEFs. We have also offered a $4M per annum reduction to our proposed operating expenditure allowance over the next regulatory period. If the AER accepts our revised proposal on operating expenditure, then the EBSS will create additional incentives for us to further lower operating expenditure over time through innovation, which

will, in turn, benefit our customers. It will also continue to align between capital expenditure and operating expenditure incentives.

Ultimately, the EBSS serves customers' long-term interests by providing us with a continuous incentive to seek operating expenditure reductions, which are ultimately passed to our customers through lower operating expenditure allowances. As detailed in our initial proposal,[5] JEN has responded to such incentives during the current regulatory period, and actual operating expenditure has been consistently below regulatory allowances.

Only where we realise such reductions can we earn EBSS benefits and pass those reductions onto our customers. For these reasons, we retain the EBSS for the next regulatory period in our revised proposal.

However, if the AER needs to make amendments to our revised proposal operating expenditure and provide a glide path to achieve further efficiency, we propose to engage with the AER to consider whether the EBSS will be in the interest of our customers.

[5] See: JEN, *2021-26 Electricity Distribution Price Review Regulatory Proposal, Attachment 06-01: Standard Control Services - Operating Expenditure*, 24 February 2020, pp. 2–3.

3. Capital Efficiency Sharing Scheme

For the CESS, there are two key issues for consideration:

- the amount of the revenue adjustment for the next regulatory period to account for the operation of incentive schemes in the current regulatory period
- whether the CESS should apply during the next regulatory period.

3.1 Revenue adjustment for CESS performance in the current regulatory period

In our initial proposal we proposed a revenue adjustment for $25.6 M ($2021). The AER considered this proposal and as a part of its review.

3.1.1 AER's position from the draft decision

The AER updated our CESS model to reflect changes made in the RFM and PTRM.

For example, the AER replaced our CY19 estimate of net capital expenditure with actual CY19 net capital expenditure, updated CPI and WACC inputs. The AER also updated capital expenditure deferred to the following regulatory period after consultation with JEN.

3.1.2 JEN's position in the revised proposal

JEN accepts the changes made by the AER to our CESS model in the draft decision and has prepared a revised proposal model to reflect an updated Real Vanilla WACC forecast with more recent placeholder return on debt observations. The updates had an immaterial impact on the carryover amounts.

Table 3–1: Summary of the revised CESS forecast – ($2021, $M)

	FY22	FY23	FY24	FY25	FY26	Total
Initial Proposal	5.1	5.1	5.1	5.1	5.1	25.6
Draft Decision	7.7	7.7	7.7	7.7	7.7	38.3
Revised Proposal	**7.6**	**7.6**	**7.6**	**7.6**	**7.6**	**38.2**

3.2 Application of the CESS in the next regulatory period

Consistent with the F&A, we proposed for the CESS scheme to apply during the next regulatory period. In its draft decision, the AER considered this proposal and decided to apply the CESS scheme.

In this revised proposal, we maintain that the CESS scheme should apply in the next regulatory period to continue to incentive us to continue to seek out more efficient capital expenditures.

4. Demand management innovation allowance mechanism

In December 2017, the AER published a new DMIS and DMIAM.[6] In the final F&A paper, the AER stated the new DMIAM mechanism is to apply in the next regulatory period for all Victorian electricity distributors.[7]

In our initial proposal,[8] we proposed to apply the DMIAM in the next regulatory control period as set out in the final F&A paper.

4.1 Revenue adjustment in the next regulatory period

4.1.1 AER's position from the draft decision

The AER's draft decision is to apply the new DMIAM without modification to JEN in the next regulatory control period. The DMIAM comprises:

- a fixed allowance of $0.2 million ($2017), plus 0.075 per cent of the annual revenue requirement for each regulatory year, as set out in our PTRM for JEN
- project eligibility requirements
- compliance reporting requirements.[9]

Changes to the DMIAM revenue adjustment—relative to those in our initial proposal—were a result of other draft decision outcomes and the flow-on impacts to the annual revenue requirement.

4.1.2 JEN's position in the revised proposal

JEN accepts the draft decision and have updated the DMIAM forecast to include changes to the revised proposal annual revenue requirement. The updates had an immaterial impact on the projected allowance.

Table 4–1: Summary of the revised forecast for DMIAM - ($2021, $M)

	FY22	FY23	FY24	FY25	FY26	Total
Initial Proposal	0.4	0.4	0.4	0.4	0.4	2.0
Draft Decision	0.4	0.4	0.4	0.4	0.4	2.0
Revised Proposal	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**2.0**

In the final distribution determination, the AER will determine the amount of the DMIAM allowance for JEN in the next regulatory control period, based on the final PTRM for JEN.

6 AER, Demand management incentive scheme, Electricity distribution network service providers, December 2017.

7 AER, Final framework and approach, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021, January 2019, pp. 86-88.

8 Jemena Electricity Networks (Vic) Ltd, 2021–26 Electricity Distribution Price Review Regulatory Proposal Attachment 07-05 Incentive mechanisms, 31 January 2020, pp. 13-14.

9 AER, Draft decision, Attachment 11 Demand management incentive scheme and Demand management innovation allowance mechanism, September 2020, p. 5.

5. Demand management incentive scheme

In the final F&A paper, the AER decided that a new DMIS should apply in the next regulatory period for all Victorian electricity distributors.[10] In our initial proposal,[11] we proposed to apply the DMIS in the next regulatory period as set out in the final F&A paper.

5.1 AER's draft decision

5.1.1 Demand Management Incentive Scheme

The AER's draft decision is to apply the new DMIS without modification to JEN in the next regulatory period. The DMIS contains three elements:

- a cost uplift of up to 50 per cent of expected costs of efficient demand management projects;
- a net benefit constraint, to ensure the incentive payment for any project cannot be higher than that project's expected net benefit; and
- an overall incentive constraint, which limits the total incentive in any year to one per cent of the distributor's annual revenue requirement for that year.[12]

The cost multiplier (uplift) applicable to any eligible project will be the cost multiplier specified in the current version of the DMIS that is in effect at the time the eligible project becomes a committed project.[13]

5.2 JEN's revised proposal

We accept the AER's draft decision to apply the new DMIS to JEN in the next regulatory period.

10 AER, *Final framework and approach, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, pp. 86-88.

11 JEN, *2021–26 Electricity Distribution Price Review Regulatory Proposal Attachment 07-05 Incentive mechanisms*, 31 January 2020, pp. 13-14.

12 AER, *Draft decision, Attachment 11 Demand management incentive scheme and Demand management innovation allowance mechanism*, September 2020, p. 4.

13 AER, *Demand management incentive scheme, Electricity distribution network service providers*, December 2017, clause 2.1(2).

6. Service target performance incentive scheme

As a part of the regulatory incentive framework, network business must balance cost efficiency with service. The STPIS creates an incentive on network businesses to manage their service standards.

In relation to the AER's STPIS, Table 6–1 sets out and compares JEN's preferred approach in its initial proposal for the next regulatory period, the AER's draft decision on our initial proposal and our response in this revised proposal.

Table 6–1: Summary of JEN's initial proposal, AER's draft decision and JEN's revised proposal

JEN's initial proposal	AER's draft decision	JEN's revised proposal
We proposed to apply the STPIS 2.0 for the next regulatory period in accordance with the F&A paper.[14] However, in the initial proposal, we only used four years of historical data to calculate the indicative performance targets, noting that the targets will be updated using five years of historical data in the revised proposal	Accept	Accept – We have updated our proposed incentive rates and targets using five years of historical data.
We did not apply the GSL component of the STIPS, as the Victorian distributors remain subject to a jurisdictional GSL scheme.	Accept.	Accept.

6.1 JEN's initial proposal

In our initial proposal, we proposed to:

- apply the STPIS 2.0 for the next regulatory period in accordance with the F&A paper.[15]
- set revenue at risk at ± 5.0 per cent.
- segment the network based on the urban and short feeder categories.
- apply the system average interruption duration index (**SAIDI**), system average interruption frequency index or (**SAIFI**), momentary average interruption frequency index event (**MAIFI**).
- apply the customer service telephone answering parameter. In accordance with clause 5.2(b) of the STPIS, we propose to cap the revenue at risk at ± 0.5 per cent for the customer service parameter.
- Set performance targets based on the distributor's average performance over the past five regulatory years; however, in the initial proposal we had only used four years of historical data to calculate the performance targets, noting that the targets will be updated using five years of historical data in the revised proposal.
- apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets.
- calculate the major event day threshold using the 2.5 beta method in accordance with our F&A paper and STPIS 2.0.

[14] AER, *Final framework and approach, AusNet Services, Citipower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019. Note that the date for commencement of the 2021-26 regulatory period is 1 July 2021.

[15] AER, *Final framework and approach, AusNet Services, Citipower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019. Note that the date for commencement of the 2021-26 regulatory period is 1 July 2021.

- calculate JEN's incentive rates in accordance with STPIS 2.0 and using the value of customer reliability (**VCR**) published in December 2019.[16]
- did not apply the GSL component of the STIPS, as the Victorian DNSPs remain subject to a jurisdictional GSL scheme outlined in the Essential Service Commission's Electricity Distribution Code.

6.2 AER's draft decision

The AER's draft decision:

- applied the STPIS 2.0 to JEN for the next regulatory period.
- set revenue at risk at ± 5.0 per cent.
- segmented the network according to the urban and short feeder categories.
- applied the SAIDI, SAIFI, MAIFI reliability parameters and telephone answering customer service parameter.
- set the performance targets based on the distributor's average performance over the past five regulatory years.
- applied the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets.
- accepted JEN's proposed method to use the 2.5 beta method in accordance with our F&A paper and STPIS scheme to calculate the major event day threshold.
- calculated JEN's incentive rates in accordance with STPIS 2.0 and using the value of customer reliability (VCR) published in December 2019.[17]
- did not apply the GSL component of the STIPS, as the Victorian distributors remain subject to a jurisdictional GSL scheme.
- decided that no adjustments will be made to our reliability targets as JEN's initial proposal had no reliability improvement in capital expenditure.[18]

The AER noted that a key amendment under STPIS 2.0 was to simplify the scheme by specifying STPIS outcomes as a fixed monetary amount, rather than as a percentage adjustment to the maximum allowable revenue as set out in STPIS 2.0 Appendix C.

To transition to STPIS 2.0, JEN's S-factor outcomes for 2019, 2020 and the intervening period will be converted to a dollar value before being applied in the price control formula in the next regulatory period as detailed in the *Attachment 14 – Control mechanisms* of the draft decision.

Table 6–2 sets out the draft decision on the applicable incentive rates that will apply to JEN for the next regulatory period. The incentive rates were calculated based on the VCR value of $41,210 for urban and short rural network segments.[19] The VCR values have been escalated to the March 2020 quarter.

Table 6–2: Draft decision – STPIS incentive rates for JEN for the next regulatory period

Reliability and customer service parameter	Urban	Short rural
SAIDI	0.0008	0.0001

16 AER, *Value of customer reliability review - Final report*, December 2019.

17 Ibid.

18 AER, *Draft Decision, Jemena Distribution Determination 2021-2026, Attachment 10, service target performance incentive scheme*, September 2020, p 9.

19 Ibid, Table 10.3 *Value of customer reliability*, p 11.

Reliability and customer service parameter	Urban	Short rural
SAIFI	0.0331	0.0040
MAIFI	0.0026	0.0003
Telephone answering		0.040%

Table 6–3 shows the indicative performance targets JEN proposed in the initial proposal, which is based on four years of historical data. To enable the AER to set reliability targets in the final determination, the AER requires JEN to submit the latest STPIS actual data in its revised proposal.

Table 6–3: Draft decision – indicative performance STPIS reliability targets for JEN for the next regulatory period

Reliability and customer service parameter	Value
Urban	
SAIDI	41.358
SAIFI	0.691
MAIFI	0.960
Short rural	
SAIDI	47.406
SAIFI	0.758
MAIFI	1.488
Telephone answering	72.891

6.3 JEN's revised proposal

We accept the AER's draft decision. We have updated our proposed targets using five years of historical data. Further, we have updated the performance targets in the draft decision STPIS rates and targets[20] based on the proposed SAIDI and SAIFI targets. The updated data is provided at Attachment 06-02.

6.3.1 Reliability performance outcomes

In our initial proposal, JEN used only four years of actual reliability performance outcomes to calculate the indicative performance targets for the next regulatory period. In the draft decision, the AER required JEN to include the latest actual reliability performance outcomes over the past five regulatory years. This would enable the AER to calculate reliability targets in the final determination.

Table 6–4 shows our actual reliability performance outcomes over the FY16 to FY20 period segmented into urban and short rural feeder types. The reliability outcomes have been calculated consistent with the AER's most recent version of the STPIS using the unplanned SAIDI, unplanned SAIFI and MAIFI supply reliability parameters.[21]

The changes in the calculation of SAIDI, SAIFI and MAIFI targets in the next regulatory period are:

- a change of the momentary interruption definition from 1 minutes or less to 3 minutes or less; and

[20] AER, *Draft Decision, DRAFT Jemena STPIS rates and targets* – September 2020.

[21] AER, *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0,* November 2018, Appendix A, Table A1.

- the reclassification of the feeders by feeder type based on the definition of an urban feeder as one that is not a CBD feeder, has a 3-year average maximum demand over the 3-year average feeder route length greater than 0.3 MVA/km. Accordingly, our network is segmented into urban and short rural feeder types.

Table 6–4: Reliability performance outcomes over FY16 to FY20

Reliability parameter	FY16	FY17	FY18	FY19	FY20
Unplanned SAIDI	**39.716**	**40.626**	**52.928**	**34.647**	**54.000**
Urban	38.787	38.736	50.582	37.325	54.163
Short rural	48.029	57.241	72.956	11.397	52.594
Unplanned SAIFI	**0.682**	**0.683**	**0.913**	**0.513**	**0.857**
Urban	0.680	0.651	0.869	0.564	0.877
Short rural	0.704	0.962	1.293	0.073	0.684
MAIFIe	**1.060**	**0.695**	**1.151**	**1.151**	**0.943**
Urban	0.975	0.675	1.063	1.126	0.921
Short rural	1.816	0.872	1.898	1.366	1.126

(1) The three parameters (highlighted in blue) are the average five years of actual performance.
(2) The STPIS outcomes are based on reliability performance that is adjusted for the exclusion events.
(3) The data for FY16 to FY19 has been audited through our annual RIN submission process, and the data for the first six months of FY20 is unaudited.

6.3.2 Telephone answering outcomes

Table 6–5 sets out our telephone answering performance outcomes over the regulatory years from FY16 to FY20. The performance outcomes in this table have been calculated consistent with the definition of telephone answering in the STPIS.[22]

Table 6–5: Revised proposal - Telephone answering service outcomes over FY16 to FY20

Customer service parameter	FY16	FY17	FY18	FY19	FY20
Telephone answering	67.333	68.273	76.031	79.927	74.753

6.3.3 Application of the STPIS targets in the next regulatory period

The reliability performance targets to apply during any regulatory control period must be based on average performance over the past five regulatory years.[23] In the initial proposal we proposed indicative reliability targets in the next regulatory period based on the actual performance over FY16 to FY19—being the most recent four years where actual data is available. We have updated the targets to include FY20.

The STPIS also requires that customer service performance targets must be based on the average actual performance over the past five regulatory years.[24] Based on the data over the period FY16 to FY20, our proposed customer service performance target over the next regulatory period is 73.263.

22 Ibid, Appendix A.

23 AER, *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0,* November 2018, clause 3.2.1.

24 Ibid, section 5.3.

The calculated SAIDI and SAIFI and MAIFI reliability performance targets are consistent with the methodology in the AER's current STPIS and the approach in Distribution Reliability Measures Guideline.[25] The proposed targets are set out in Table 6–6.

Table 6–6: Revised proposal – STPIS reliability targets in the next regulatory period

Reliability parameter	Value
Urban	
SAIDI	43.919
SAIFI	0.728
MAIFI	0.952
Short rural	
SAIDI	48.443
SAIFI	0.743
MAIFI	1.416
Telephone answering	73.263

(1) The SAIDI and SAIFI reliability targets are for unplanned supply interruptions.

6.3.4 Excluded events

The STPIS allows certain events to be excluded from the calculation of the S-factor revenue adjustment. These exclusions include events that are beyond the control of JEN, 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 affect JEN's STPIS performance significantly.

Over the FY16 to FY20 period, there were:

- one load shedding event at the direction of the AEMO on 25 January 2019; and
- three major event days (**MED**) on 9 October 2016, 6 February 2019 and 31 December 2019.

The reliability performance outcomes and the proposed reliability targets in Table 6–4 and Table 6–6 respectively reflect the exclusion of the load shedding event and the three MEDs.

The MED thresholds have been calculated using the 2.5 beta method in accordance with Appendix D of the STPIS.[26] The thresholds are based on the daily unplanned SAIDI data. Only those days where an unplanned SAIDI per day value greater than zero are considered. The MEDs shown in Table 6–7 are based on unplanned daily SAIDI data for five sequential financial years (FY16 to FY20).

Table 6–7: MED thresholds over FY16 to FY20

	FY16	FY17	FY18	FY19	FY20
MED threshold	4.251	3.989	3.884	4.194	3.734

[25] AER, *Distribution Reliability Measures Guideline, Version 1*, November 2018.

[26] AER, *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0,* November 2018, Appendix D.

6.3.5 STPIS Incentive rates

The incentive rates we propose to apply over the next regulatory period are calculated in accordance with STPIS.[27] The STPIS incentive rate to apply to each parameter is calculated in accordance with clauses 3.2.2, 5.3.2(a)(1) and Appendix B of the STPIS and the values of customer reliability are applied in accordance with clause 3.2.2(b) and Appendix B of the STPIS.

The VCR value applied is $41,210/MWh ($2019) for urban and short rural network segments.[28] The VCR adopted in the draft decision is $ 41,856 after applying nine months CPI escalation.[29]

The incentive rates shown in Table 6–8 are from the 'AER output table' in the draft decision STPIS incentive rates and targets,[30] after we updated the SAIDI and SAIFI targets proposed in the revised proposal.

Table 6–8 shows the proposed incentive rates for each 0.01 interruption away from the performance target for each of the reliability parameters.

Table 6–8: Revised proposal – STPIS incentive rates for JEN for the next regulatory period (in per cent)

Reliability and customer service parameter	Urban	Short rural
SAIDI	0.0829	0.0095
SAIFI	3.3337	0.4151
MAIFI	0.2667	0.0332
Telephone answering		0.040

Source: AER, *Draft Decision, DRAFT Jemena STPIS rates and targets* – September 2020 – after updating the performance targets.

6.4 Guaranteed service levels

The final F&A states that the AER will not apply the GSL component of the STPIS over the next regulatory period as the Victorian distributors remain subject to a jurisdictional GSL scheme.[31]

Accordingly, JEN will continue to apply the GSL scheme in the Electricity Distribution Code, issued by the Essential Services Commission of Victoria. The details of how we will seek a regulatory allowance to fund the scheme are outlined in attachment 05-01.

27 AER, *Electricity distribution network service providers, Service target performance incentive scheme, Version 2.0,* November 2018, section 3.2.2.

28 AER, *Value of customer reliability review - Final report*, December 2019, Table 5.22, p. 95.

29 AER, *Draft Decision, DRAFT Jemena STPIS rates and targets* – September 2020, AER input table, Rows 4 and 8.

30 AER, *Draft Decision, DRAFT Jemena STPIS rates and targets* – September 2020.

31 AER, *Final framework and approach AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commencing 1 January 2021*, January 2019, p 76.

7. F-factor scheme

On 22 December 2016, the Victorian Government published the "F-factor scheme order 2016" (**2016 Order**). The 2016 Order replaces the previous f-factor scheme that commenced on 23 June 2011, and pursuant to it, the AER made an f-factor scheme determination in June 2017.[32] This scheme establishes an incentive mechanism to reduce fire ignitions that pose the greatest risk of harm through the use of IRUs. The IRU represents a blended measure for tracking DNSP fire start performance which takes into account the relevant fire danger rating and the location of each fire started.

The scheme works by comparing the actual IRU calculated in each regulatory year against an IRU target (**IRU Performance**) and then providing an incentive against the IRU Performance.

Under the AER's f-factor determination, the AER set JEN a benchmark target of 9.7 IRUs for the current regulatory period. Since then, the Minister for Energy, Environment and Climate Change (**Minister**) has gazetted an order[33] outlining a new target for JEN of 4.2 IRUs applicable for the 2020/21 financial year.

In our initial proposal, we set out our approach to applying the f-factor scheme in accordance with the 2016 Order. In the draft decision, the AER outlined its views on the scheme noting changes required in response to the 30 July 2020 gazetted order.

Table 7–1 sets out and compares JEN's initial proposal for the next regulatory period, the AER's draft decision on our initial proposal and our response in this **r**evised proposal in relation to the f-factor scheme.

Table 7–1: Summary of JEN's initial proposal, AER's draft decision and JEN's revised proposal

JEN's initial proposal	AER's draft decision	JEN's revised proposal
IRU Target – JEN proposed the IRU target of 9.7 consistent with the IRU target adopted in the current regulatory period.	The AER adopted the IRU target of 4.2 as gazetted by the Minister for Energy, Environment and Climate Change	Accept
Revenue adjustment – JEN was silent on the approach to adjusting revenue.	The AER will adjust the annual regulated revenues in the 'I-Factor' component of the annual revenue formula	Accept

7.1 AER's position from draft decision

In its draft decision, the AER continued to apply the f-factor scheme as used in the current regulatory period and as applicable to Victorian Distribution Network Service Providers under the 2016 Order. However, the AER adjusted the IRU target to 4.2 in accordance with the order gazetted by the Minister for Energy, Environment and Climate Change on 30 July 2020.

The draft decision states that the approach to rewarding or penalising performance is to adjust annual revenues via the I-Term of the standard control service price control formula by the following amount:

Revenue adjustment = Incentive rate x (IRU target – IRU amount)

Where:

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

(b) *Incentive rate* is $15,000;

[32] AER, *Final determinations and Explanatory statement Electricity f-factor scheme 2016–2020 For Victorian electricity distribution network service providers*, June 2017. The AER's 2017 f-factor decision supersedes the AER's 2016-20 F-factor scheme determination.

[33] Victorian Government Gazette, *NOTICE OF IGNITION RISK UNIT TARGETS, G30*, 30 July 2020.

(c) *IRU target* is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as published by the Victorian Government in accordance with the Order; and

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

Revenue adjustment, Incentive rate, IRU target and IRU amount have the same meanings as prescribed by the Order.

7.2 JEN's Position in Revised Proposal

JEN accepts the approach to implementing the f-factor scheme as outlined in the draft decision.