

For consultation – Proposed transitional arrangement and application of STPIS to 2021-26 revenue determinations for Victorian distributors

The purpose of this document is to seek distributors' feedbacks on the proposed transitional arrangement of Service Target Performance Incentive Scheme (STPIS) to 2021-26 revenue determinations for Victorian distributors.

The Victorian Government moved the regulatory period from the current calendar year format to financial year format. This move creates a six-month gap between the end of the current 2016-20 regulatory period at 31 December 2020 and the commencement of the next financial year starting from 1 July 2021. Consequently, there is a need to establish a framework to properly manage the treatment of the six-month gap regarding the application of the STPIS.

We are proposing to modify the application of the s-factor outcomes of the last two years (2019 and 2020) of the current period, with details in the appendix.

The STPIS scheme provides AER the flexibility to make adjustment for this purpose, as detailed in cl 2.6 of STPIS.¹

Your response to our proposal is required by **COB Friday 22 November 2019**. Please do not hesitate to contact [REDACTED] or [REDACTED] if you have any questions.

¹ Clause 2.6 Transitional arrangements

- (a) The AER recognises that transitional issues may arise from one *regulatory control period* to the next *regulatory control period* if the *scheme's parameters* or other attributes are altered.
- (b) The AER will give consideration to an arrangement proposed under this *scheme* that reduces the impact of any transitional issues.
- (c) Subject to any transitional arrangements set out in the *NEL* and the *NER*, the AER may consider and decide whether the *scheme* or a component of the *scheme* should be altered to address a transitional issue.
- (d) The AER shall decide on the appropriateness of the arrangement to address a transitional issue on the basis of:
 - (1) materiality of the issue
 - (2) reasonableness and fairness to the DNSP and customers
 - (3) consistency with the objectives as set out in clause 1.5.
- (e) The AER shall set out in writing its reasons for deciding on the appropriateness of the proposed transitional arrangements.

AER proposed transitional arrangement and application of STPIS to 2021-26 revenue determinations for Victorian distributors

We are proposing to modify how the s-factor outcomes of the last two years (2019 and 2020) of the current period are to be applied in the next period, with details below:

Performance of 2019 and 2020

1. No change to STPIS annual compliance assessment for the remaining 2019 and 2020 regulatory year.
2. Apply the 2019 and 2020 actual s-factor to 2021-22 and 2022-23 tariff respectively, adopting 2.5 year lag, as detailed below:
 - Apply the 2019 actual s-factor outcome to 2021-22 financial year (FY) tariff
 - Apply the 2020 actual s-factor outcome to **2022-23** FY tariff

Performance of 6-month gap Jan-Jun 2021

3. How to apply STPIS to the transitional gap period of 1/1/2021 to 30/6/2021?
 - Set up performance target for the transitional gap period of 1/1/2021 to 30/6/2021, using previous five year like-for-like period actual performance
 - Specifically, setting target - ie. using actual performance for 1/7/15 to 30/6/16, 1/7/16 to 30/6/17, 1/7/17 to 30/6/18, 1/7/18 to 30/6/19, 1/7/19 to 30/6/20 - for Transitional period – under **STPIS 1.0**.
 - Collecting actual data - 1/7/2020 to 30/6/2021 - Transitional period – under **STPIS 1.0**.
 - The actual s-factor for Transitional period/gap of 1/1/2021 to 30/6/2021, will be applied to **2022-23** tariff.
 - Therefore, there are two s-factor outcomes will applied to **2022-23** tariff, including the application of 2020 actual s-factor outcome under step 2.

Performance of July 2021 to June 2026

4. How to apply STPIS to the next regulatory period of 1/7/2021 to 30/6/2026?
 - Setting performance target for 1/7/21 to 30/6/26 - using actual for 1/7/15 to 30/6/16, 1/7/16 to 30/6/17, 1/7/17 to 30/6/18, 1/7/18 to 30/6/19, 1/7/19 to 30/6/20 – New regulatory period – **STPIS 2.0** (new MAIFI definition).
 - Collecting actual performance data - 1/7/21 to 30/6/26 - New regulatory period – **STPIS 2.0** (new MAIFI definition).
 - The actual s-factor outcome for 1/7/2021 to 30/6/2026, will be applied to the annual tariff for 1/7/2023 to 30/6/2028, two years lag, back to normal.

A graphic representation of the above approach is shown below.

Schematic display of proposed approach

	Current regulatory period 2016-2020					Transitional period 2021 6-month gap period	Next regulatory period 2021-26								
	2016	2017	2018	2019	2020	2021/22	2022/23	2023/24	2024/25	2025/26					
	1/1/2016- 30/6/2016	1/1/2017- 30/6/2017	1/1/2018- 31/12/2018	1/1/2019- 30/6/2019	1/1/2020- 31/12/2020	1/1/2021- 30/6/2021	1/7/2021- 31/12/2021	1/1/2022- 30/6/2022	1/7/2022- 31/12/2022	1/1/2023- 30/6/2023	1/7/2023- 31/12/2023	1/1/2024- 30/6/2024	1/7/2024- 31/12/2024	1/1/2025- 30/6/2025	1/7/2026- 31/12/2026
Performance target		Completed		Business as usual	Business as usual	New target for 6 months required	New target for new regulatory period required								
Actual performance		Completed		Business as usual	Business as usual	Actual performance for 6 months required.	Actual performance for new regulatory period required.								
S-factor outcome		Completed		Business as usual	Business as usual	S-factor will be calculated based on new target and performance.									
Annual tariff		Completed		2019 s-factor	2020 s-factor	2021 6 months s-factor	2021/22 Tariff - t-2.5 lag	2022/23 Tariff - t-2.5 lag	2022/23 Tariff - t-3.5 lag	2022/23 Tariff - t-1.5 lag					
							2021-22 s-factor							2023/24 Tariff t-2 lag	Business as usual