

# Draft Decision

**Evoenergy**

**Electricity Distribution**

**Determination 2024 to 2029**

**(1 July 2024 to 30 June 2029)**

**Attachment 10**

**Service target performance**

**incentive scheme**

**September 2023**

© Commonwealth of Australia 2023

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Tel: 1300 585 165

AER reference: AER212496

#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1.0	28 September 2023	7

## Contents

<b>10 Service target performance incentive scheme</b> .....	<b>1</b>
10.1 Draft decision.....	2
10.2 Evoenergy's revenue proposal.....	3
10.3 Assessment approach .....	3
10.4 Reasons for draft decision .....	4
<b>Shortened forms</b> .....	<b>7</b>

# 10 Service target performance incentive scheme

The National Electricity Rules (NER) sets out that our regulatory determination must specify how any applicable Service target performance incentive scheme (STPIS) is to apply in the 2024–29 period.<sup>1</sup>

This attachment sets out our draft decision on how we will apply the STPIS to Evoenergy for the 2024–29 period.

## AER's service target performance incentive scheme

Our distribution STPIS provides electricity distributors with incentives to maintain and improve network reliability performance, to the extent that consumers are willing to pay for such improvements. The STPIS is also intended to ensure that distributors' service levels do not reduce as result of efforts to achieve efficiency gains.

The current version (version 2.0) of our national STPIS was published in November 2018 and will apply to all revenue determinations from that date.<sup>2</sup>

## Framework and approach to the application of STPIS

Our Framework and Approach (F&A) stated that we will apply version 2.0 of the STPIS to Evoenergy in the 2024–29 period and we proposed to:<sup>3</sup>

- set revenue at risk at  $\pm 5$  per cent,
- segment the network according to the urban and short rural feeder categories,
- apply the system average interruption duration index or SAIDI, system average interruption frequency index or SAIFI and customer service (telephone answering) parameters. However, if Evoenergy proposed a customer service incentive scheme (CSIS) to include similar performance measures, the telephone answering parameter of the STPIS will not be applied,
- set performance targets based on Evoenergy'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 targets, and
- apply our latest published value of customer reliability (VCR) values to set the incentive rates for SAIDI and SAIFI.

---

<sup>1</sup> NER, Cl. 6.3.2 and 6.12.1(9).

<sup>2</sup> AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018. (AER, STPIS v2.0, November 2018).

<sup>3</sup> AER, *Framework and approach for Evoenergy (ACT) Regulatory control period commencing 1 July 2024*, July 2022, pp. 40-42.

We will not apply the guaranteed service level (GSL) component, which is composed of direct payments to customers experiencing service below a predetermined level if Evoenergy remains subject to a jurisdictional GSL scheme.

## 10.1 Draft decision

Our draft decision is to apply STPIS 2.0 to Evoenergy in the 2024–29 period. Specifically:

- set revenue at risk at  $\pm 5.0$  per cent,
- segment the network according to the urban and short rural feeder categories,
- apply the SAIDI, SAIFI and customer service (telephone answering) parameters,
- set performance targets based on Evoenergy'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, and
- apply the latest published VCR values by the AER to set the incentive rates.

We will not apply the guaranteed service level (GSL) component because Evoenergy is subject to subject to a jurisdictional GSL scheme.

Evoenergy is required to submit the 2022–23 STPIS actual performance data in its revised revenue proposal to allow us to set the STPIS targets and incentive rates in our final decision.

We have considered Evoenergy's revenue proposal, submissions raised by stakeholders and our F&A for Evoenergy. Our response to the matters raised by Evoenergy and stakeholders about the application of STPIS is discussed below.<sup>4</sup>

Table 10-1 and Table 10-2 present our draft decision on the applicable performance targets and incentive rates that will apply to Evoenergy for the 2024–29 period.

**Table 10-1 Draft decision – STPIS reliability targets for Evoenergy for the 2024–29 period**

	Urban	Short rural	Telephone answering
SAIDI	35.4186	49.6152	
SAIFI	0.5696	0.7147	
Customer service			74.41%

Source: AER analysis

<sup>4</sup> Evoenergy, *2024-29 Regulatory Proposal, Attachment 4: Incentive schemes Regulatory proposal for the ACT electricity distribution network 2024–29*, January 2023.

**Table 10-2 Draft decision – STPIS incentive rates for Evoenergy for the 2024–29 period**

	Urban	Short rural	Telephone answering
SAIDI	0.0774	0.0253	
SAIFI	3.2101	1.1730	
Customer service			-0.04

Source: AER analysis

## 10.2 Evoenergy's revenue proposal

Evoenergy's revenue proposal adopted our F&A position on how STPIS will apply to calculate its targets, incentive rates, and major event day (MED) for exclusion.<sup>5</sup>

Evoenergy also applied to reclassify 28 short rural feeders into urban feeders because the maximum loads of these feeders have changed.<sup>6</sup> Consequently, Evoenergy applied to recast its outage data by feeder types to reflect its current circumstances and the distribution reliability measures guideline definition, to form the STPIS targets for the 2024–29 period.<sup>7</sup>

## 10.3 Assessment approach

We are required to decide on how the STPIS is to apply to Evoenergy.<sup>8</sup> When making a distribution determination, the STPIS requires us to determine all performance targets, incentive rates, revenue at risk and other parameters under the scheme.<sup>9</sup>

### 10.3.1 Interrelationships

We must consider any other incentives available to the distributor under the NER or relevant distribution determination in implementing the STPIS.<sup>10</sup> One of the objectives of the STPIS is to ensure that the incentives are sufficient to offset any financial incentives the distributor may have to reduce costs at the expense of service levels.<sup>11</sup> For the 2024–29 period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS) and the operating expenditure (opex) Efficiency Benefit Sharing Scheme (EBSS).

<sup>5</sup> Evoenergy, *2024-29 Regulatory Proposal, Attachment 4: Incentive schemes Regulatory proposal for the ACT electricity distribution network 2024–29*, January 2023, pp. 8–9.

<sup>6</sup> Evoenergy, *2024-29 Regulatory Proposal, Attachment 4: Incentive schemes Regulatory proposal for the ACT electricity distribution network 2024–29*, January 2023., pp. 9–10; Evoenergy, *email to AER re: AER staff's proposed STPIS model for confirmation*, 15 August 2023.

<sup>7</sup> Evoenergy, *2024-29 Regulatory Proposal, Attachment 4: Incentive schemes Regulatory proposal for the ACT electricity distribution network 2024–29*, January 2023., pp. 9–10; Evoenergy, *email to AER re: IR#037: STPIS feeder classifications*, 14 July 2023.

<sup>8</sup> NER, cl. 6.12.1(9).

<sup>9</sup> AER, *STPIS V2.0*, November 2018, cl. 2.1(d).

<sup>10</sup> NER, cl. 6.6.2(b)(3)(iv).

<sup>11</sup> NER, cl. 6.6.2(b)(3)(v).

The reward and penalty mechanism under the STPIS (the incentive rates) are determined based on the average customer value for the improvement, or otherwise, to supply reliability (the VCR). This is aimed at ensuring that the distributor's operational and investment strategies are consistent with customers' value for the services that are offered to them.

Our capex and opex allowances are set to reasonably reflect the expenditures required by a prudent and efficient business to achieve the capex and opex objectives. These include complying with all applicable regulatory obligations and requirements and, in the absence of such obligations, maintaining quality, reliability, and security of supply outcomes.

The STPIS provides an incentive for distributors to invest in further reliability improvements (via additional STPIS rewards) where customers are willing to pay for it. Conversely, the STPIS penalises distributors where they let reliability deteriorate. Importantly, the distributor will only receive a financial reward after actual improvements are delivered to the customers.

In conjunction with CESS and EBSS, the STPIS will ensure that:

- any additional investments to improve reliability are based on prudent economic decisions, and
- any reductions in capex and opex are achieved efficiently, rather than at the expense of service levels to customers.

## 10.4 Reasons for draft decision

We will apply the STPIS 2.0 to Evoenergy for the 2024–29 period. This approach is consistent with our F&A and our recent revenue determination for Victorian DNSPs for the 2021–26 period. The following section sets out our detailed consideration on applying the STPIS to Evoenergy for the 2024–29 period.<sup>12</sup>

No submissions were received related to the STPIS.

### 10.4.1 Revenue at risk

Revenue at risk caps the potential reward and penalty for Evoenergy under the STPIS. We consider that an incentive of  $\pm 5.0\%$  of the annual forecast revenue is appropriate for Evoenergy because it has demonstrated strong reliability performance; hence a  $\pm 5.0\%$  limit is the appropriate balance between the incentives to maintain reliability versus the price impact to customers funding the reliability outcomes.

### 10.4.2 Reliability of supply component

#### Applicable components and parameters

We will apply the unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to Evoenergy's feeder segments for the 2024–29 period. 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

---

<sup>12</sup> <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements>.

measures the total number of unplanned sustained customer interruptions divided by the total number of distribution customers.<sup>13</sup>

### 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 Evoenergy's underlying STPIS performance.

We accept Evoenergy's proposal to calculate the major event day threshold using the 2.5 beta method in accordance with our F&A and scheme.

### Feeder reclassification

Our STPIS defines the following feeders as:<sup>14</sup>

- Short rural feeder means a feeder with a total feeder route length less than 200 km, which is not a CBD feeder or urban feeder
- Urban feeder is a feeder which is not a CBD feeder and has a 3-year average maximum demand over the 3-year average feeder route length greater than 0.3 MVA/km.

As outlined above, due to the rapid urbanisation in the ACT, feeders that were previously classified as short rural feeders must be re-classified as urban feeders. This is because the 3-year average maximum demand over the 3-year average feeder route length for them is greater than 0.3 MVA/km.

Therefore, we accept Evoenergy's proposal to reclassify its feeders to 28 short rural feeders into urban feeders based on the 0.3 MVA/km threshold level as defined in the STPIS.<sup>15</sup>

### Performance targets

The STPIS specifies that the performance targets should be based on the average performance over the past five regulatory control 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>16</sup>

Our draft decision is to set Evoenergy's performance targets based on average performance over the past five regulatory years without modification. As our draft decision has not

---

<sup>13</sup> Sustained interruption means supply interruption longer than three minutes. Momentary interruptions are those supply interruptions lasting less than three minutes.

<sup>14</sup> AER, *STPIS v2.0*, November 2018, appendix A.

<sup>15</sup> AER, *STPIS v2.0*, November 2018, appendix A.

<sup>16</sup> AER, *STPIS v2.0*, November 2018, cl 3.2.1(a).



included capex for improving reliability, we made no adjustment to Evoenergy's reliability targets. Please see the capex attachment of this draft decision for further details.

Our calculated performance targets for Evoenergy for the 2024–29 period is presented in Table 10-1.

### 10.4.3 Customer service component

We will apply the STPIS telephone answering performance target and incentive rate to Evoenergy in the 2024–29 period because Evoenergy has withdrawn its CSIS. Please see overview of this draft decision for more details.

### 10.4.4 Incentive rates

The incentive rates applicable to Evoenergy for the reliability of supply performance parameters of the STPIS were calculated in accordance clause 3.2.2 of STPIS 2.0. We used the formulae provided at Appendix B of STPIS 2.0 and our most recent VCR review.<sup>17</sup>

Our draft decision calculated incentive rates for Evoenergy for the 2024–29 period is presented in Table 10-2 **Error! Reference source not found.**

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

Our F&A stated that we will apply the latest VCR to the distribution determination in calculating Evoenergy's incentive rates. Hence, for this draft decision, we have calculated Evoenergy's incentive rates by using our most recent VCR review.<sup>18</sup>

The VCR for network segments outlined in Table 10-3 were applied to calculate Evoenergy's incentives rates for the 2024–29 period.

**Table 10-3 Value of customer reliability (\$/MWh)**

	Urban	Short rural
VCR	47,412	47,412

Source: AER, *2022 VCR annual adjustment*, December 2022; AER, *Value of customer reliability review, final report*, December 2019, pp. 17 and 71. They will be escalated to the June 2024 dollar value in the final decision.

<sup>17</sup> AER, *STPIS v2.0*, November 2018, appendix B; AER, *Value of customer reliability review, final report*, December 2019, p. 17 and 71.

<sup>18</sup> AER, *Value of customer reliability review, final report*, December 2019, pp. 17 and 71. AER, *2022 VCR Annual adjustment*, December 2022.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
CSIS	customer service incentive scheme
DNSP	distribution network service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach (document)
GSL	guaranteed service level
MED	major event day
NER	national electricity rules
NSW	New South Wales
opex	operating expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
VCR	value of customer reliability

---