DRAFT DECISION

Ausgrid
Distribution determination
2019 to 2024

Attachment 10

Service target performance incentive scheme

November 2018

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Ausgrid for the 2019–24 regulatory control period. It should be read with all other parts of the draft decision.

The draft 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

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Attachment 10 – Service target performance incentive scheme

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Contents

Shortened forms

Shortened form	Extended form
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP10	Consumer Challenge Panel (subpanel 10)
CESS	capital expenditure sharing scheme
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
NER	national electricity rules
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

10 Service target performance incentive scheme

Under clauses 6.3.2(3) 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 how we will apply the STPIS to Ausgrid for the 2019–24 regulatory control period.

AER's service target performance incentive scheme

We published the current version of our national STPIS in November 2009.[1] 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 framework and approach (F&A) to the application of STPIS

In the final F&A, we stated that we will continue to apply the distribution STPIS to Ausgrid in the next regulatory control period. We proposed to:

- set revenue at risk at ± 5 per cent
- segment the network according to the CBD, urban, short rural and long rural feeder categories as applicable
- 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 Ausgrid'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 indicated in AEMO's 2014 Value of Customer Reliability Review final report.[2]

Our F&A also stated that the:

- GSL component will not apply to Ausgrid if it remains subject to a jurisdictional GSL scheme.[3]

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1 AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).

2 AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59–65.

- revised STPIS may apply to Ausgrid in the next regulatory period if the review of the STPIS is completed on time.[4]

Given that the revised STPIS is not yet complete in time for this draft decision, we will apply the current version of the distribution STPIS (November 2009)[5] to Ausgrid for the 2019–24 regulatory period.

10.1 Draft decision

We will apply the STPIS for the 2019–24 regulatory control period. This is consistent with our F&A position on STPIS and determinations for NSW distributors.

We have taken into account Ausgrid's revenue proposal, submissions raised by stakeholders and the F&A in reaching our draft decision.[6] Our responses to the matters raised by Ausgrid and stakeholders about the application of the STPIS are discussed below.

Table 10-1 and Table 10-2 present our draft decision on the applicable incentive rates and targets that will apply to Ausgrid for the 2019–24 regulatory period. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.[7]

Table 10-1 Draft decision—STPIS incentive rates for Ausgrid for the 2019–24 regulatory period

	CBD	Urban	Short rural	Long rural
SAIDI	0.0062	0.0472	0.0058	0.0001
SAIFI	1.4669	4.9092	0.6831	0.0144

Source: AER analysis.

3 AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59-65.

4 AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, p. 60.

5 AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).

6 Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, April 2018, pp. 10–19; Consumer Challenge Panel, CCP10, *Submission on Ausgrid 2019-24 regulatory proposal*, 8 August 2018, pp. 34-36; EUAA, *Submission on Ausgrid 2019-24 regulatory proposal*, 10 August 2018, pp. 15-16; AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59-65.

7 AER, *STPIS*, November 2009, cl. 5.3.2(a).

Table 10-2 Draft decision—STPIS reliability targets for Ausgrid for the 2019–24 regulatory period

	value
CBD	
SAIDI	10.327
SAIFI	0.038
Urban	
SAIDI	65.264
SAIFI	0.646
Short rural	
SAIDI	139.752
SAIFI	1.289
Long rural	
SAIDI	554.509
SAIFI	3.081
Telephone answering	
Percentage of calls will be answered within 30 seconds	81.3%

Source: AER analysis.

10.2 Ausgrid's proposal

Ausgrid's revenue proposal accepted our F&A position on how the STPIS will apply with the exception of the application of the customer service performance targets.[8]

Ausgrid proposed its customer service target to be based on actual performance over the last three regulatory years of 2014–15 to 2016–17. This will be updated to the last four regulatory years in the revised regulatory proposal, following the end of the 2017–18 regulatory year.[9]

[8] Ausgrid, *Revenue Proposal*, April 2018, pp.173-174; Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, April 2018, pp. 10–19.

[9] Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, April 2018, pp. 17–18.

Ausgrid also proposed to begin collecting data on this new measure of customer service from July 2018. Ausgrid will seek to have it included in the scheme and its revenue determination for the 2024–29 regulatory control period.[10]

10.3 AER's assessment approach

We are required to make a decision on how the STPIS is to apply to Ausgrid.[11] 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.[12]

We outlined our proposed approach to, and reasons for, the application of the STPIS in our F&A for Ausgrid. Our draft decision has adopted the position in the F&A. We have considered materials submitted to us by Ausgrid and by stakeholders.

10.3.1 Interrelationships

In implementing the STPIS we must take into account any other incentives available to the distributor under the NER or relevant distribution determination.[13] 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. For the 2019–24 regulatory control period, the STPIS will interact with the Capital Expenditure Sharing Scheme (CESS) and the Efficiency Benefit Sharing Scheme (EBSS).

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 capital and operating expenditure (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 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.

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10 Ausgrid, *Revenue Proposal*, April 2018, pp.173-174.

11 NER, cl. 6.12.1(9).

12 AER, *STPIS*, November 2009, cl. 2.1(d).

13 NER, cl. 6.6.2(b)(3)(iv).

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

- any additional investments to improve reliability are based on prudent economic decisions
- 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 in accordance with our F&A paper to Ausgrid.[14] The following section sets out our detailed consideration on applying the STPIS to Ausgrid for the 2019–24 regulatory control period.

10.4.1 Revenue at risk

Ausgrid's revenue at risk for each regulatory year of the 2019–24 regulatory control period will be capped at ± 5.0 per cent as per the scheme standard.

CCP10 supports a stronger STPIS option that is a 'strength' of 5 per cent being applied.[15]

Revenue at risk caps the potential reward and penalty for Ausgrid under the STPIS. We consider an incentive of ± 5.0 per cent of the annual allowable revenue would result in the right balance with the operation of the EBSS and CESS to ensure that the incentives to reduce costs will not be delivered at the expense of service levels to customers—hence meeting the long term interest of consumers.

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 Ausgrid's feeders for the 2019–24 regulatory control 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 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

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[14] AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59-65.

[15] Consumer Challenge Panel (CCP10), *Submission on Ausgrid 2019-24 regulatory proposal*, 8 August 2018, p. 34.

exclude the effects of extreme weather events that have the potential to significantly affect Ausgrid's underlying STPIS performance.

Ausgrid proposed to calculate the major event day (MED) threshold using the 2.5 beta method in accordance our F&A. Since we have not received any submissions that we should depart from our F&A, we accept Ausgrid's proposal.

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 expected to result in a material improvement in supply reliability.[16]

Since Ausgrid's capex for the current and next regulatory control period does not contain reliability improvement expenditure, we have not made adjustments to the targets, which are based on the relevant historical average levels for the period.

For this draft decision, we have calculated Ausgrid's performance targets to be based on actual performance over the last four regulatory years of 2013–14 to 2016–17. For the final decision, the performance target will be updated to include the last five regulatory years, following the end of the 2017-18 regulatory year.

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

Our calculated performance targets for Ausgrid for the 2019–24 regulatory control period are presented in the table below.

[16] AER, *STPIS*, November 2009, cl. 3.2.1.

Table 10-3 Draft decision—STPIS reliability targets for Ausgrid for the 2019–24 regulatory period

	value
CBD	
SAIDI	10.327
SAIFI	0.038
Urban	
SAIDI	65.264
SAIFI	0.646
Short rural	
SAIDI	139.752
SAIFI	1.289
Long rural	
SAIDI	554.509
SAIFI	3.081
Telephone answering	
Percentage of calls will be answered within 30 seconds	81.3%

Source: AER analysis.

10.4.3 Customer service component

The STPIS customer service target applicable to Ausgrid 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 (GOS).

Ausgrid proposed its customer service target to be based on actual performance over the last three regulatory years of 2014–15 to 2016–17, with the majority of weight on the last two financial years. This will be updated to the last four regulatory years in the revised regulatory proposal, following the end of the 2017–18 regulatory year.[17]

[17] Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, April 2018, pp. 17–18.

Ausgrid has proposed its telephone answering target of 80% of calls answered within 30 seconds on the following basis:[18]

- Ausgrid continued to share a call centre with its previous retail business until November 2014, therefore, its call centre performance prior to this date was aided by its ability to transfer calls to the retail line of its business under its Transitional Services Agreement (TSA) when a large volume of calls occurred
- financial years 2015–16 and 2016–17 therefore represent an actual performance without the aid of the retail call centre
- Ausgrid has experienced a reduction in call volumes over the last two years, given that increasingly customers expect to be able to find the information they need online
- stakeholders are concerned that the number of telephone calls answered within 30 seconds is not a meaningful customer service metric
- for these reasons, Ausgrid does not consider it appropriate for Ausgrid to be incentivised to invest in additional resources, at additional costs to [its] customers, to support a service that is declining in use.

We are required to apply the current version of the distribution STPIS (November 2009) to Ausgrid for the 2019–24 regulatory period. While we acknowledge there may be deficiencies with the current customer service parameter, currently there is no appropriate replacement parameter to measure the customer service performance. Therefore, we will continue to adopt telephone response measured as the number of telephone calls answered within 30 seconds.

For this draft decision, recognising Ausgrid did not have its own call centre prior to the 2014–15 regulatory year, we have calculated Ausgrid customer service target to be based on actual performance over the last three regulatory years of 2014–15 to 2016–17. For the final decision, the performance target will be updated to include the last four regulatory years, following the end of the 2017-18 regulatory year.

Our calculated telephone answering performance targets for Ausgrid for the 2019–24 regulatory control period are presented in Table 10-2.

Development of a new customer service metric for 2024–29

Ausgrid has proposed a new customer service performance metric and begun collecting data on this new measure of customer services from July 2018. Ausgrid will seek to have it included in the scheme and its revenue determination for the 2024–29 regulatory control period.[19]

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[18] Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, April 2018, pp. 17–18.

[19] Ausgrid, *Revenue Proposal*, April 2018, pp.173-174.

We will consider this new customer service metric after further information is available and, if considered suitable, amend the STPIS accordingly.

10.4.4 Value of customer reliability to calculate the incentive rates

Our F&A paper stated that we will apply a latest value for VCR through the distribution determination in calculating Ausgrid's incentive rates.[20] Ausgrid accepted our position.[21] However, it did not indicate the specific values of the VCR in the regulatory proposal.

In response to our information request, Ausgrid advised that it proposed to apply the VCR values of $47,906 and $41,594 per MWh for CBD and non-CBD feeders respectively, at June 2019 dollar value.[22]

We typically set the baseline VCR values for:[23]

- CBD feeders by using the sector average VCR value for commercial business customers ($44,720/MWh) with a CPI adjustment, because the majority of CBD energy consumptions are used by commercial business customers
- non-CBD feeders at the state-wide VCR values ($38,350/MWh for NSW) as stated in the AEMO 2014 VCR report with CPI adjustment.[24]

We consider our approach should also apply to Ausgrid's feeders.

We have calculated the VCR values based on the AEMO 2014 VCR report recommendations, escalated to the October 2018 dollar value, to be $47,494 and $40,729 per MWh for CBD and non-CBD feeders respectively.

We do not believe that the VCR values applying to Ausgrid's customers should be different from the above level, which will also be applied to other NSW distributors. Since Ausgrid has not provided specific justification that its VCR value should be different from the AEMO 2014 VCR report recommendations, we will reject Ausgrid's proposed VCR values.

For this draft decision, our proposed VCR values for Ausgrid's network segments are outlined in the table below. We have applied these VCR values to calculate its incentives rates for 2019–24. The VCR values will be updated for the latest available CPI adjustment when making the final decision in April 2019.

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20 AER, *Framework and approach Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 59–65.

21 Ausgrid, *Revenue Proposal Attachment 9.01: Application of incentive schemes*, April 2018, p. 16

22 Ausgrid, E-mail to AER, 11 October 2018.

23 AER distribution determinations for South Australia, Queensland, Tasmanian and Victorian distributors.

24 AEMO, *Value of customer reliability review, final report*, September 2014.

Table 10-4 Value of customer reliability ($/MWh)

	CBD	Urban	Short rural	Long rural
VCR[a]	47,494	40,729	40,729	40,729

Source: AER analysis, and AEMO, *Value of customer reliability review, final report*, September 2014, pp. 2, 30.

[a] Values based on AEMO 2014 VCR report, escalated to October 2018 dollar value using June 2018 CPI index.

EUAA submitted that in June 2018, Ausgrid sought to use $170,000/MWh in its Final Draft Assessment Project for the RIT-D project "Ensuring reliability requirements in the Sydney CBD area" and AER should reject this VCR value.[25] We consider this issue should be addressed under the RIT-D dispute process.

10.4.5 Incentive rates

Ausgrid provided forecast energy usage information. Hence, for this draft decision, we have calculated Ausgrid's incentive rates by deriving it from its consumption data and AEMO's published aggregate VCR value for NSW.

The incentive rates applicable to Ausgrid for the reliability of supply performance parameters of the STPIS have been calculated in accordance with clause 3.2.2 and using the formulae provided as appendix B of the National STPIS. Our draft decision on Ausgrid's incentive rates are in the table below. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.[26]

Table 10-5 Draft decision—STPIS incentive rates for Ausgrid for the 2019–24 regulatory period

	CBD	Urban	Short rural	Long rural
SAIDI	0.0062	0.0472	0.0058	0.0001
SAIFI	1.4669	4.9092	0.6831	0.0144

Source: AER analysis.

[25] EUAA, *Submission on Ausgrid 2019-24 regulatory proposal*, 10 August 2018, pp. 15-16.

[26] AER, *STPIS*, November 2009, cl. 5.3.2(a).