



# **Draft determinations and Explanatory statement**

Electricity f-factor scheme 2016–2020  
for  
Victorian electricity distribution network service  
providers

April 2017

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# Contents

Shortened forms .....	4
<b>1 About this consultation.....</b>	<b>5</b>
1.1 About this paper .....	5
1.2 This determination replaces our previous decision on the application of f-factor .....	6
1.3 How to make a submission.....	6
1.4 Structure of this document .....	7
<b>2 Overview.....</b>	<b>8</b>
2.1 The new f-factor scheme .....	8
2.2 Legislative requirements in making this determination .....	10
<b>3 AER considerations on revenue adjustment mechanism.....</b>	<b>12</b>
3.1 Need for a six-month transitional arrangement .....	12
3.2 Revenue adjustments after 2018 .....	13
<b>4 Draft f-factor scheme determinations .....</b>	<b>16</b>
4.1 AusNet Services f-factor scheme determination .....	16
4.2 CitiPower f-factor scheme determination .....	17
4.3 Jemena f-factor scheme determination .....	18
4.4 Powercor f-factor scheme determination .....	20
4.5 United Energy f-factor scheme determination .....	21
<b>5 Next steps .....</b>	<b>23</b>
5.1 Final determinations.....	23
5.2 Ongoing reporting against the fire start targets .....	23
<b>A IRU Targets .....</b>	<b>24</b>
A.1 IRU Targets for 2019- 22 regulatory year .....	24
A.2 Transitional IRU targets for 2018 regulatory year .....	24

## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
CFA	Country Fire Authority
DNSP	Electricity Distribution Network Service Provider
DELWP	Department of Environment, Land, Water and Planning (formerly the Department of Sustainability and Environment)
ESV	Energy Safe Victoria
MFB	Metropolitan Fire and Emergency Services Board
NER	National Electricity Rules
NEL	National Electricity Law

# 1 About this consultation

On 22 December 2016, the Victorian Government published the “f-factor scheme order 2016” (<http://www.gazette.vic.gov.au/gazette/Gazettes2016/GG2016G051.pdf>, Victoria Government Gazette, G 51 22 December 2016, page 3239). This Order revokes the previous f-factor scheme Order that commenced on 23 June 2011, under which the old f-factor scheme applied, and provides for the establishment of a new f-factor scheme. This new scheme establishes a new incentive mechanism that targets incentives towards fire ignitions that pose the greatest risk of harm through the use of ignition risk units (IRUs).<sup>1</sup> Further details of the scheme and the setting of IRU values are discussed in section 3 of this paper.

The purpose of this draft determination paper is to consult with stakeholders on our proposed method to give effect to the rewards and penalties arising from the new f-factor scheme for Victorian electricity distribution network service providers (**DNSPs**, commonly also known as **distributors**) for the 2016–20 regulatory period.

Our proposed timelines are set out Section 1.3 below.

## 1.1 About this paper

This paper sets out the AER’s draft proposal for the f-factor scheme determination for the 2016–2020 distribution determination period and explanatory statement for the purpose of clause 8 of the Order for the f-factor scheme determinations. This paper presents the AER’s:

- process in making this f-factor scheme determination
- considerations and reasons for making this determination
- draft f-factor scheme determination for each of the five Victorian distributors.

We seek stakeholders’ comments and submissions to the draft determinations regarding our proposed approach on how to adjust the distributors’ annual revenue requirements to give effect to the reward and penalty amounts under the f-factor scheme. Page 6 contains the details of how to make a submission.

Under clause 8(1) of the Order, the AER is required to make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–20 period. Under clause 9, the f-factor scheme determination must establish an f-factor scheme, which complies with the Order and under which there is a revenue adjustment for a distributor.

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<sup>1</sup> National Electricity (Victoria) Act 2005, f-factor scheme Order 2016, clause 1, Victorian Government Gazette, G 51 22 December 2016, p. 3239.

The AER, in making an f-factor scheme determination for the 2016–20 distribution determination period, must follow the consultation procedures outlined in clause 14 of the Order.

After submissions on this paper have been received and considered, the AER will issue the final f-factor scheme determinations and explanatory statement.

**The consultation period ends on 26 May 2017.**

## 1.2 This determination replaces our previous decision on the application of f-factor

In the 2016-20 distribution determination, we made the final decision on the application of the f-factor scheme based on the information available to us at the time (under attachment 18). In this decision, we indicated that:<sup>2</sup>

In its submission to our framework and approach (F&A) paper, the Victorian Department of State Development, Business and Innovation (DSDBI) stated that it intended to review the f-factor scheme in 2014–15 to determine how the incentive has performed in delivering efficient improvements to power line bushfire safety.<sup>3</sup> We are still awaiting the Victorian Government's findings from its review and its proposed changes to the scheme.

As a new scheme has not been made as yet by the Victorian Government, we will apply the approach described in our F&A paper, which proposed to retain the current incentive framework—to set the target based on a five year historical average and an incentive rate of \$25,000 per fire start.

We will apply the f-factor scheme in a manner similar to the other incentive schemes, such as the STPIS. As stated in our F&A paper, we will include an adjustment amount as an "l-factor" component in the annual revenue requirement calculation formula to give effect to the reward or penalty outcomes of actual fire starts from the year commencing on 1 January 2016.

The Victorian Government has now published a new Order, revoking the previous scheme.<sup>4</sup> Under the new Order we are required to make a new f-factor scheme determination by 30 September 2018 which will replace the f-factor scheme determination contained in our *Final Decision for Victorian distributors 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

## 1.3 How to make a submission

Key stakeholders, distributors, energy consumers and other interested parties are invited to make submissions on this issues paper by **Friday 26 May 2017**.

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<sup>2</sup> AER, *Final Decision for Victorian distributors 2016 to 2020, Attachment 18 – f-factor scheme*, May 2016

<sup>3</sup> Department of State Development Business and Innovation, *Submission: Preliminary positions on replacement framework and approach (for consultation)*, 30 August 2014, p. 8.

<sup>4</sup> F-Factor Scheme Order 2016, Victoria Government Gazette, G51, 22 December 2016

We prefer that all submissions are in Microsoft Word or another text readable document format. Submissions on our issues paper should be sent to: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au).

Alternatively, submissions can be sent to:

Mr Chris Pattas  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information should:

- (1) clearly identify the information that is the subject of the confidentiality claim
- (2) provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on our website. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy (October 2008), which is available on our website.

Our proposed timelines for the process are shown in the following table.

**Table 1.1 Timeline for f-factor determinations**

Project steps for STPIS review	Date
Publish draft determinations and explanatory statement for stakeholder consultation	3 April 2017
Submissions on draft determinations close	26 May 2017
Final f-factor scheme published (with Explanatory Statement)	23 June 2017 (indicative)

## 1.4 Structure of this document

The remainder of the draft determination outlines our consideration on the implementation of the new f-factor scheme:

- Chapter 2 provides an overview of the new f-factor scheme
- Chapter 3 sets out our consideration on the revenue adjustment and IRU amount for each of the Victorian distributors for the 2016–20 period
- Chapter 4 outlines our f-factor scheme draft determinations for each distributor
- Chapter 5 sets out our next steps to complete this determination process.
- Appendix A sets out IRU targets for 2016/17 - 2019/20 and Transitional fire start targets for 2018.

## 2 Overview

The f-factor scheme determination is a regulatory instrument under the National Electricity (Victoria) Act 2005 which specifically provides Distribution Network Service Providers (distribution businesses) with an incentive to lower the number of fire starts on their networks in Victoria.

The previous f-factor scheme was established under a Victorian f-factor scheme order 2011 (the 2011 Order) on 23 June 2011, subsequent to passing the Energy and Resources Legislation Amendment Act 2010. The mechanism of the previous scheme is that distributors are rewarded or penalised at \$25,000 per fire start less or more than the historical average benchmark targets.

On 22 December 2016, the Victorian Government published the “f-factor scheme order 2016” (the Order). This 2016 Order revokes the 2011 f-factor scheme Order and provides for the establishment of a new incentive mechanism that targets incentives towards ignitions that pose the greatest risk of harm through the use of ignition risk units (IRUs).<sup>5</sup>

The 2016 Order requires that the AER must make an f-factor scheme determination in respect of the 2016-2020 regulatory control period no later than 30 September 2018.<sup>6</sup>

### 2.1 The new f-factor scheme

The new f-factor scheme seeks to incentivise better alignment between the bushfire risk reduction practices and priorities of the distribution businesses and the bushfire risk exposure of the Victorian Community posed by the distribution network.<sup>7</sup>

The new scheme will still be a symmetrical scheme in terms of rewards or penalties with respect to the historical performance. However, the benchmark targets for fire starts will be measured differently as will the calculation of rewards or penalties amounts.

Under the new scheme, each fire start will be weighted by a “geography factor” and a “time factor (fire risk)”. By applying these two weighting factors, the risk factor of each fire start—known as ignition risk units (IRU)—will be determined. The overall IRU scores of all fire starts within a financial year will be measured against the benchmark IRU target.

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<sup>5</sup> National Electricity (Victoria) Act 2005, f-factor scheme Order 2016, clause 1, Victorian Government Gazette, G 51 22 December 2016, p. 3239.

<sup>6</sup> NEVA requires that we must first publish a draft determination for at least 6 weeks consultation prior to making a final determination.

<sup>7</sup> Victorian Department of Environment Land Water and Planning, f-factor Incentive Scheme: Regulatory Impact Statement, October 2016, p. 15.



The new benchmark targets have been set by the Order based on the historical average of such weighted measures of historical fire starts. The Order also specifies the incentive mechanism, the definitions of the locational and time factor components of the IRU measurement method, the penalty/reward rate of each IRU unit different from the benchmark target value.

### **2.1.1 Revenue adjustment mechanism under the f-factor scheme**

The 2016 Order establishes the method on how to measure and calculate the reward and penalty amounts arising from the distributors' actual fire starts each financial year. We are required by the Order to determine how to adjust the distributors' annual revenue requirements to give effect to these reward and penalty amounts, which will be reflected in the distributors' annual network tariffs.

Clause 9(1) of the 2016 Order specifies that an f-factor scheme determination must establish an f-factor scheme under which there is a revenue adjustment for each Distribution Network Service Provider.

Clause 9(6) of the Order specifies that, for the purposes of a distribution determination, a revenue adjustment under an f-factor scheme is not revenue of, expenditure by or a cost of a Distribution Network Service Provider unless the AER determines otherwise.

Clause 9(4) of the 2016 Order specifies that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2019 regulatory year, and for each subsequent regulatory year, in accordance with the following formula:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

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;
- (c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11; 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.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

## 2.1.2 Parameters of revenue adjustment rates

In accordance with clause 8(1) of the Order, the AER must make an f-factor amount determination in respect of each regulatory control period.

Under clause 9(5), an f-factor scheme determination may specify how the revenue adjustment is to occur. For the avoidance of doubt and without limitation, the revenue adjustment may –

- (a) be by way of a pass through;
- (b) be by way of an annual adjustment to be included in the control mechanism for a distribution determination;
- (c) be expressed as a percentage adjustment to revenue;
- (d) take effect over more than one regulatory year; and
- (e) take effect over more than one regulatory control period.

## 2.1.3 What are fire starts?

Under clause 5 of the Order, fire starts covered by an f-factor scheme determination are any fire:

- (a) that starts in or originates from a distribution system;
- (b) started by any tree, or part of a tree, falling upon or coming into contact with a distribution system;
- (c) started by any person, bird, reptile or other animal coming into contact with a distribution system;
- (d) started by lightning striking a distribution system or a part of a distribution system;
- (e) started by any other thing forming part of or coming into contact with a distribution system; or
- (f) otherwise started by a distribution system.

## 2.2 Legislative requirements in making this determination

We are required by the Victorian legislation to give effect to the f-factor scheme. Under the National Electricity (Victoria) Act 2005, the Governor in Council, by Order published in the Government Gazette, may confer functions and powers, or impose duties on the AER to make a determination for the purpose of providing incentives for distributors to reduce the risk of fire starts and reduce the risk of losses or damage cause by the fire

starts.<sup>8</sup> An Order may specify how the AER is to make, publish, implement and administer an f-factor scheme determination and an f-factor amount determination.<sup>9</sup>

The 2016 f-factor Order requires that,<sup>10</sup> the AER must:

- publish its proposal for the f-factor scheme determination;
- publish an explanatory statement that sets out the provisions under or for the purpose of which the f-factor scheme determination is required and the reasons for the determination;
- consult with the relevant parties; and
- follow the distribution consultation procedures set out in rule 6.16 of the National Electricity Rules (NER), as modified by the Order.

The AER is required under clause 8 of the Order to make an f-factor scheme determination, which outlines that:

(1) The AER must make an f-factor scheme determination in accordance with this Order.

Note: Pursuant to section 16E(1)(a) and (b) of the National Electricity (Victoria) Act 2005, the AER must perform or exercise its functions and powers under this Order in a manner that will or is likely to contribute to the achievement of the national electricity objective.

(2) An f-factor scheme determination made in respect of the 2016-2020 regulatory control period must be made no later than 30 September 2018.

(3) An f-factor scheme determination made in respect of a regulatory control period subsequent to the 2016-2020 regulatory control period must be made so as to take effect at the commencement of the regulatory control period.

(4) The AER must publish an f-factor scheme determination. An f-factor scheme determination may be published as part of a distribution determination for the relevant regulatory control period.

Clause 9(1) of the Order provides:

An f-factor scheme determination must establish an f-factor scheme that complies with this Order and under which there is a revenue adjustment for a Distribution Network Service Provider.

Clause 9(5) of the Order specifies that, an f-factor scheme determination may specify how the revenue adjustment is to occur.

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<sup>8</sup> 16 C (1) (a), NEVA, No. 8 of 2005, pp. 21–22.

<sup>9</sup> 16 C (2) (a), NEVA, No. 8 of 2005, p. 22.

<sup>10</sup> Clause 14 of the 2016 f-factor Order.

### 3 AER considerations on revenue adjustment mechanism

This section outlines the AER’s considerations and conclusions regarding the revenue adjustment and IRU amount for each of the Victorian distributors for the 2016–20 period.

Clause 9(1) of the Order provides that an f-factor scheme determination must establish an f-factor scheme under which there is a revenue adjustment for a distributor.

Clause 9(4) of the Order specifies that the IRU amount is the number of IRUs accrued in relation to the relevant distribution system in the relevant **financial year**<sup>11</sup> [emphasis added], determined in accordance with clause 11.

#### 3.1 Need for a six-month transitional arrangement

Because of the change to measure fire starts according to financial year, the first six months of 2016 [January-June 2016] were not covered by the new measurement method. Hence, the Victorian Government set a transitional measure and arrangement for this transitional period to the new scheme.

##### 3.1.1 Transitional arrangements for 2018 revenue adjustment

Clauses 9(2) and 13 of the 2016 Order specify that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2018 regulatory year in accordance with the following formula:

***Transitional adjustment***

$$= \textit{Transitional rate} \times (\textit{Transitional target} - \textit{Number of fires})$$

where

- i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;
- ii. Transitional rate is \$25,000;
- iii. Transitional target is the number of fire starts for the first six months of the 2016 regulatory year as specified in the following table:

AusNet	CitiPower	Jemena	Powercor	United Energy
109.0	18.6	50.2	237.2	98.0

<sup>11</sup> The change to measure fire starts on a financial year basis is to capture fire starts of each fire season separately. Fire starts were previously measured on a calendar year basis. As fire seasons typically commence in late November to early December, fire start reports cover fire starts of two fire seasons.

- iv. Number of fires is the number of fire starts determined under clause 12 to have occurred in the first six months of the 2016 regulatory year.

### 3.1.2 Revenue adjustment for 2015, 2016 and 2017

Clause 9(2) of the 2016 Order specifies that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2015, 2016 and 2017 regulatory years in accordance with the previous f-factor scheme Order, as if that Order had not been revoked.

## 3.2 Revenue adjustments after 2018

In accordance with clause 9(4) of the Order the revenue adjustment for Victorian distributor for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

where

- (g) Revenue adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;
- (h) Incentive rate is \$15,000;
- (i) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11; and
- (j) 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.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for each distributor are set out in appendix A.1.

### 3.2.1 IRU amount

Clause 11(1) of the Order specifies that, subject to subclauses (3) and (5) the AER must calculate the IRU amount accrued by the relevant Distribution Network Service Provider in the relevant financial year in the relevant distribution system in accordance with the following formula –

$$\text{IRU amount} = \sum_{f=1}^n \text{danger multiplier}_f \times \text{location multiplier}_f$$

where n is the total number of fire starts determined under clause 12 to have occurred in the relevant distribution system during the relevant financial year and –

where f represents each individual fire start that occurred in the relevant distribution system during the relevant financial year and –

(a) danger multiplier is, for fire start f –

- 0.1 where no fire danger rating is forecast at the time the fire started;
- 0.2 where the fire danger rating is low-moderate at the time the fire started;
- 0.5 where the fire danger rating is high at the time the fire started;
- 1 where the fire danger rating is very high at the time the fire started;
- 2 where the fire danger rating is severe at the time the fire started;
- 3.5 where the fire danger rating is extreme at the time the fire started; or
- 5 where the fire danger rating is Code Red at the time the fire started.

(b) location multiplier is, for fire start f –

(i), 0.2 where the fire start occurred in an area that is not a hazardous bushfire risk area; or

if the fire start occurred in a hazardous bushfire risk area, the highest applicable value of–

(ii), 1;

(iii), 4.6 where the fire start occurred in an area delineated and bounded in red as represented on the plan lodged in the Central Plan Office and numbered LEGL./16-354; or

(iv), 19.8 where the fire start occurred in an electric line construction area.

Note: for fire starts that occurred in a hazardous bushfire risk area, the location multiplier values are not mutually exclusive and the highest applicable value applies. For example, if a fire start occurs in an area that is an electric line construction area (ie clause iv applies) and at the same time, that area also falls within an area delineated and bounded in red on plan LEGL./16-354 (ie clause iii applies), the location multiplier value would be 19.8 not 4.6 because 19.8 is the highest value applicable to that fire start.

### 3.2.2 How revenue adjustment is to occur

Clause 9(5) of the Order specifies that, an f-factor scheme determination may specify how the revenue adjustment is to occur. For the avoidance of doubt and without limitation, the revenue adjustment may –

- (a) be by way of a pass through;
- (b) be by way of an annual adjustment to be included in the control mechanism for a distribution determination;

- (c) be expressed as a percentage adjustment to revenue;
- (d) take effect over more than one regulatory year; and
- (e) take effect over more than one regulatory control period.

In the 2016-20 distribution determination, we made the final decision on the application of f-factor (under attachment 18). In this previous decision, we indicated that:<sup>12</sup>

We will apply the f-factor scheme in a manner similar to the other incentive schemes, such as the STPIS. As stated in our F&A paper, we will include an adjustment amount as an "l-factor" component in the annual revenue requirement calculation formula to give effect to the reward or penalty outcomes of actual fire starts from the year commencing on 1 January 2016.

It remains our view that rewards and penalties under the new f-factor scheme be calculated as an adjustment to revenue under the "l-factor" component of the annual revenue requirement calculation formula.

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<sup>12</sup> AER, *Final decision for Victorian Distributors distribution determination 2016 to 2020, Attachment 18 – f-factor scheme*, May 2016.

## 4 Draft f-factor scheme determinations

This section outlines the AER's f-factor scheme draft determinations for each distributor.

### 4.1 AusNet Services f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to AusNet Services. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–20 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order the revenue adjustment for AusNet Services for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

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;
- (c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11; 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.

Notes: See the definition of "relevant financial year" in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

**Revenue adjustment, Incentive rate, IRU target and IRU amount** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for AusNet Services are set out in Appendix A.1.



In accordance with clauses 9(2) of the Order the revenue adjustment for AusNet Services for the 2018 regulatory year must be determined by the AER as follows:

***Transitional adjustment***

$$= \textit{Transitional rate} \times (\textit{Transitional target} - \textit{Number of fires})$$

where

- i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;
- ii. Transitional rate is \$25,000.

In accordance with clause 13(1) of the Order the AER determines that for the 2018 revenue adjustment the fire start target number for AusNet is set out in Appendix A.2.

The revenue adjustment will be made by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for AusNet Services for the 2016-20 regulatory control period.

This determination replaces our previous determination on f-factor application, as indicated in the *AER, Final decision AusNet Services distribution determination 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

## **4.2 CitiPower f-factor scheme determination**

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to CitiPower. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–20 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order the revenue adjustment for CitiPower for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\textit{Revenue adjustment} = \textit{Incentive rate} \times (\textit{IRU target} - \textit{IRU amount})$$

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;
- (c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11 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.

Notes: See the definition of "relevant financial year" in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

**Revenue adjustment, Incentive rate, IRU target and IRU amount** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for CitiPower are set out in Appendix A.1.

In accordance with clauses 9(2) of the Order the revenue adjustment for CitiPower for the 2018 regulatory year must be determined by the AER as follows:

***Transitional adjustment***

$$= \text{Transitional rate} \times (\text{Transitional target} - \text{Number of fires})$$

where

- i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;
- ii. Transitional rate is \$25,000.

In accordance with clause 13(1) of the Order the AER determines that for the 2018 revenue adjustment the fire start target number for CitiPower is set out in Appendix A.2.

The revenue adjustment will be made by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for CitiPower for the 2016-20 regulatory control period.

This determination replaces our previous determination on f-factor application, as indicated in the *AER, Final decision CitiPower distribution determination 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

### **4.3 Jemena f-factor scheme determination**

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to Jemena. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-

factor scheme determination to take effect in the 2016–20 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order the revenue adjustment for Jemena for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

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;
- (c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11; 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.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

**Revenue adjustment, Incentive rate, IRU target and IRU amount** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for Jemena are set out in Appendix A.1.

In accordance with clauses 9(2) of the Order the revenue adjustment for Jemena for the 2018 regulatory year must be determined by the AER as follows:

**Transitional adjustment**

$$= \text{Transitional rate} \times (\text{Transitional target} - \text{Number of fires})$$

where

- i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;
- ii. Transitional rate is \$25,000.

In accordance with clause 13(1) of the Order the AER determines that for the 2018 revenue adjustment the fire start target number for Jemena is set out in Appendix A.2.

The revenue adjustment will be made by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for Jemena for the 2016-20 regulatory control period.

This determination replaces our previous determination on f-factor application, as indicated in the *AER, Final decision Jemena distribution determination 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

#### 4.4 Powercor f-factor scheme determination

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to Powercor. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–20 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order the revenue adjustment for Powercor for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

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;
- (c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11 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.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

**Revenue adjustment, Incentive rate, IRU target and IRU amount** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for Powercor are set out in Appendix A.1.

In accordance with clauses 9(2) of the Order the revenue adjustment for Powercor for the 2018 regulatory year must be determined by the AER as follows:

***Transitional adjustment***

$$= \text{Transitional rate} \times (\text{Transitional target} - \text{Number of fires})$$

where

- i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year;
- ii. Transitional rate is \$25,000.

In accordance with clause 13(1) of the Order the AER determines that for the 2018 revenue adjustment the fire start target number for Powercor is set out in Appendix A.2.

The revenue adjustment will be made by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for Powercor for the 2016-20 regulatory control period.

This determination replaces our previous determination on f-factor application, as indicated in the *AER, Final decision Powercor distribution determination 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

## **4.5 United Energy f-factor scheme determination**

Under clause 8(1) of the F-factor Scheme Order 2016 (the Order) made under section 16E of the National Electricity (Victoria) Act 2005, the Australian Energy Regulator (AER) must make an f-factor scheme determination in relation to United Energy. Under clause 8(2) of the Order, the AER must make, no later than 30 September 2018, an f-factor scheme determination to take effect in the 2016–20 distribution determination period. The distribution determination period is the period of 1 January 2016 to 31 December 2020.

Under clause 9(1) of the Order, an f-factor scheme determination must establish an f-factor scheme that complies with the Order and under which there is a revenue adjustment for a distributor.

In accordance with clause 9(4) of the Order the revenue adjustment for United Energy for the 2019 regulatory year, and for each subsequent regulatory year, must be determined by the AER as follows:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

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;
- (c) IRU target is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 11; 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.

Notes: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

**Revenue adjustment, Incentive rate, IRU target and IRU amount** have the same meanings as prescribed by the F-factor Scheme Order 2016.

In accordance with clause 10(1) of the Order the AER determines that the IRU target numbers for United Energy are set out in Appendix A.1.

In accordance with clauses 9(2) of the Order the revenue adjustment for United Energy for the 2018 regulatory year must be determined by the AER as follows:

***Transitional adjustment***

$$= \text{Transitional rate} \times (\text{Transitional target} - \text{Number of fires})$$

where

- i. Transitional adjustment is the adjustment to the revenue for the relevant Distribution Network Service Provider for the 2018 regulatory year
- ii. Transitional rate is \$25,000.

In accordance with clause 13(1) of the Order the AER determines that for the 2018 revenue adjustment the fire start target number for United Energy is set out in Appendix A.2.

The revenue adjustment will be made by way of an "I-factor" component in the annual revenue requirement calculation formula, as set out in our final decision for United Energy for the 2016-20 regulatory control period.

This determination replaces our previous determination on f-factor application, as indicated in the AER, *Final decision United Energy distribution determination 2016 to 2020, Attachment 18 – f-factor scheme, May 2016*.

## **5 Next steps**

### **5.1 Final determinations**

After submissions on this paper have been received and considered, the AER will issue the final f-factor scheme determinations and explanatory statement.

After making the final f-factor scheme determinations, the AER will apply the financial rewards and penalties prescribed by the scheme through the annual pricing approval process.

### **5.2 Ongoing reporting against the fire start targets**

We will request distributors to provide a fire start report in accordance with clause 6 of the Order. These reports will be published on our website in accordance with the Order.

## A IRU Targets

### A.1 IRU Targets for 2019- 22 regulatory year

Clause 10(1) of the Order determines IRU target for each distributor for each of the relevant financial years as follows:

	AusNet	CitiPower	Jemena	Powercor	United Energy
FY 2016/17	247.7	3.4	9.7	468.0	22.3
FY 2017/18	247.7	3.4	9.7	468.0	22.3
FY 2018/19	247.7	3.4	9.7	468.0	22.3
FY 2019/20	214.3	3.4	9.7	412.8	22.3

Note: See the definition of “relevant financial year” in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.

Therefore, the IRU target for FY2016/17 is used to calculate the revenue adjustment for 2019, the IRU target for FY2017/18 is used to calculate the revenue adjustment for 2020, and so on.

Clause 9(2) of the Order provides that the IRU targets for relevant financial years after the 2019/20 financial year may be published by the Minister by notice in the Victoria Government Gazette.

Clause 9(2) of the Order provides that if the Minister does not publish the IRU target for a relevant financial year under subclause (2), the IRU target for that financial year is the same as the IRU target for the 2019/20 financial year as specified in the table in subclause (1).

### A.2 Transitional IRU targets for 2018 regulatory year

Clauses 9(2) and 13 of the 2016 Order specify that a separate revenue adjustment must be made for each Distribution Network Service Provider for the 2018 regulatory year.

Clause 13 of the 2016 Order specifies that transitional target is the number of fire starts for the first six months of the 2016 regulatory year as specified in the following table:

AusNet	CitiPower	Jemena	Powercor	United Energy
109.0	18.6	50.2	237.2	98.0