



FINAL DECISION
Endeavour Energy
Distribution Determination

2019 to 2024

Attachment 10
Service target performance
incentive scheme

April 2019

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Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Endeavour Energy for the 2019–2024 regulatory control period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The attachments have been numbered consistently with the equivalent attachments to our longer draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 15 – Alternative control services

Attachment 18 – Tariff structure statement

Attachment A – Negotiating framework

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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
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
MAR	maximum allowed revenue
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 and 6.12.1(9) of the National Electricity Rules (NER), our regulatory determination must specify how any applicable distribution 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 Endeavour Energy (Endeavour) for the 2019–24 regulatory control period.

AER's service target performance incentive scheme

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.

We published the current version of our national STPIS, STPIS 2.0, in November 2018.¹ In the STPIS 2.0, among other changes, the AER has adjusted the STPIS formula to better balance the weights given to the frequency and duration of supply interruptions. The modified STPIS will increase the incentive for distributors to reduce the average duration of supply interruptions for all customers, while keeping the number of outages at low levels.

Key amendments in the STPIS 2.0 include the following:

- changing the weighting ratio (w) for the STPIS incentive rates to 1.5 for all network segments²
- simplifying the scheme by specifying STPIS outcomes as a fixed monetary amount, rather than as a percentage adjustment to the maximum allowable revenue (MAR)
- changing the threshold for momentary interruptions from less than 1 minute to less than 3 minutes.

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 Endeavour in the next regulatory control period.³

Our F&A also stated that the revised STPIS may apply to Endeavour in the next regulatory period if the review of the STPIS is completed on time.⁴

¹ AER, *Electricity distribution network service providers—service target performance incentive scheme, Version 2.0*, November 2018. (AER, *STPIS*, November 2018).

² AER, *STPIS*, November 2018, clause 3.2.2, table 1, p. 12.

³ 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.

10.1 Final decision

Based on Endeavour's revised proposal and stakeholder submissions, we will apply the latest STPIS version 2.0 (November 2018)⁵ to Endeavour and other ACT/NSW distributors for the 2019–24 regulatory period in the following manner:

- set revenue at risk at the range ± 5.0 per cent
- segment the network according to CBD, urban, short rural and long rural feeder categories as applicable
- apply the system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI) and customer service (telephone answering) parameters
- set performance targets based on Endeavour'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.⁶
- not apply the guaranteed service level (GSL) of the STPIS as Endeavour is subject to a jurisdictional GSL scheme.

In making our final decision on STPIS, we have taken into account our draft decision, Endeavour's regulatory and revised regulatory proposals and submissions raised by stakeholders.⁷ Our response to the matters raised by Endeavour and stakeholders about the application of the STPIS are discussed in section 10.5

Table 10.1 and Table 10.2 present our final decision on the applicable incentive rates and targets that will be applied to Endeavour's STPIS 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.⁸

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, *STPIS*, November 2018.

⁶ Australian Energy Market Operator, *Value of customer reliability review—final report*, September 2014.

⁷ Endeavour Energy, *Revised regulatory proposal 1 July 2019– 30 June 2024*, January 2019, p. 32; Endeavour Energy, *Revised Proposal Attachment 0.09: Amended RIN STPIS data*, January 2019; Endeavour Energy, *Updated Historical STPIS data – Final audit report*, March 2019; Consumer Challenge Panel (CCP10), *Response to the Endeavour Energy revised regulatory proposal 2019-24 and AER draft determination*, February 2019; 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.

⁸ AER, *STPIS*, November 2018, cl. 5.3.2(a).

Table 10.1 Final decision—STPIS incentive rates for Endeavour for the 2019–24 regulatory period

	Urban	Short rural
SAIDI	0.0730	0.0282
SAIFI	4.0860	2.1659

Source: AER analysis.

Table 10.2 Final decision—STPIS reliability targets for Endeavour for the 2019–24 regulatory period

	value
Urban	
SAIDI	60.118
SAIFI	0.716
Short rural	
SAIDI	172.012
SAIFI	1.493
Telephone answering	
Percentage of calls will be answered within 30 seconds	81.4%

Source: AER analysis.

10.2 Our draft decision

We applied the earlier version of the distribution STPIS (November 2009)⁹ to Endeavour for the 2019–24 regulatory period, given that the revised STPIS (November 2018) was not yet complete in time for the draft decision.

Our draft decision for Endeavour applied the national STPIS to the distributor except for the GSL component. It also applied the revised values for VCR in calculating the incentive rates for Endeavour.¹⁰

⁹ AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).

¹⁰ Values determined from the most recent Australian Energy Market Operator (AEMO) review of VCR values; AER, *Draft decision Endeavour Energy distribution determination - Attachment 10 - STPIS*, September 2018, pp. 13–14.

10.3 Endeavour Energy's revised proposal

In the revised regulatory proposals, Endeavour and other ACT/NSW distributors (Evoenergy, Ausgrid and Essential Energy) requested to apply the latest version of the STPIS for the 2019–24 regulatory control period.¹¹

Endeavour also provided the re-cast historical information required to apply the amended STPIS and an audit opinion confirming the accuracy of this data.¹²

10.4 Assessment approach

We are required to make a decision on how the STPIS is to apply to Endeavour.¹³ 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.¹⁴

We outlined our proposed approach to, and reasons for, the application of the STPIS in our F&A and draft decision for Endeavour. Our final decision has adopted the position in the draft decision, except for the application of the revised STPIS to ACT/NSW distributors. We have considered materials submitted to us by Endeavour and stakeholders.

10.5 Reasons for final decision

We will apply the revised STPIS (November 2018) to Endeavour. The following sections set out our detailed consideration on applying the STPIS to Endeavour for the 2019–24 regulatory control period.

10.5.1 Application of revised STPIS to ACT/NSW distributors

In the draft decision, we applied the earlier version of the distribution STPIS (November 2009) to ACT/NSW distributors, including Endeavour, for the 2019–24 regulatory period, given that the revised STPIS (November 2018) was not yet complete in time for the draft decision.¹⁵

We will apply the revised STPIS to ACT/NSW distributors in this final decision because the revised scheme would deliver better outcomes for consumers—the modified STPIS will increase the incentive for distributors to reduce the average duration of supply interruptions for all customers, while keeping the number of outages at low

¹¹ Endeavour Energy, *Revised regulatory proposal 1 July 2019– 30 June 2024*, January 2019, p. 32.

¹² Endeavour Energy, *Revised Proposal Attachment 0.09: Amended RIN STPIS data*, January 2019; Endeavour Energy, *Updated Historical STPIS data – Final audit report*, March 2019.

¹³ NER, cl. 6.12.1(9).

¹⁴ AER, *STPIS*, November 2018, cl. 2.1(d).

¹⁵ AER, *Draft decision Endeavour Energy distribution determination - Attachment 10 - STPIS*, September 2018, pp. 5-6.

levels.¹⁶ This is consistent with our F&A paper – that we intended to apply the revised version once the revised version was finalised.¹⁷

The CCP10 submission supports applying the new STPIS.¹⁸

10.5.2 Reliability of supply component and customer service component

We received from Endeavour independently verified historical reliability performance data over the past five years to incorporate the revised definitions for:

- Sustained interruptions (outages longer than 3 minutes)
- Single phase low voltage outages (33 per cent of customers impacted)
- Single phase high voltage outages (67 per cent of customers impacted).

Our calculated performance targets for reliability of supply component and customer service component for Endeavour for the 2019–24 regulatory control period are presented in the table below.

Table 10.3 Final decision—STPIS reliability targets for Endeavour for the 2019–24 regulatory period

	value
Urban	
SAIDI	60.118
SAIFI	0.716
Short rural	
SAIDI	172.012
SAIFI	1.493
Telephone answering	
Percentage of calls will be answered within 30 seconds	81.4%

Source: AER analysis.

¹⁶ AER, <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/service-target-performance-incentive-scheme-2018-amendment/final-decision>

¹⁷ 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.

¹⁸ Consumer Challenge Panel (CCP10), *Response to the Ausgrid revised regulatory proposal 2019-24 and AER draft determination*, January 2019, p. 44.

10.5.3 Value of Customer Reliability

For our draft decision, we have calculated the VCR values based on the AEMO 2014 VCR report recommendations, escalated to the October 2018 dollar value, for Endeavour and other ACT/NSW distributors.¹⁹

For this final decision, we have maintained the same approach in our draft decision and updated VCR values using the December 2018 CPI index to be \$41,125 per MWh for non-CBD feeders.

Our proposed VCR values for Endeavour's network segments are outlined in the table below. We have applied these VCR values to calculate Endeavour's incentive rates for 2019–24.

Table 10.4 Value of customer reliability (\$/MWh)

	Urban	Short rural	Long rural
VCR ^a	41,125	41,125	41,125

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

^a Values based on AEMO 2014 VCR report, escalated to July 2019 dollar value using December 2018 CPI index.

10.5.4 Incentive rates

The incentive rates applicable to Endeavour 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 in appendix B of the STPIS 2.0. Our final decision on Endeavour'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.²⁰

Table 10.5 Final decision—STPIS incentive rates for Endeavour for the 2019–24 regulatory period

	Urban	Short rural
SAIDI	0.0730	0.0282
SAIFI	4.0860	2.1659

Source: AER analysis.

¹⁹ AER, *Draft decision Endeavour Energy distribution determination - Attachment 10 - STPIS*, September 2018, pp. 13–14.

²⁰ AER, *STPIS*, November 2018, cl. 5.3.2(a).