



**FINAL DECISION**  
**Evoenergy**  
**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 Evoenergy 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 A – Negotiated framework

Attachment B – Pricing methodology

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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, sub-panel 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 allowable 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

Our regulatory determination must specify how any applicable distribution service target performance incentive scheme (STPIS) is to apply in the next regulatory control period.<sup>1</sup>

This attachment sets out how we will apply the distribution STPIS to Evoenergy for the 2019–24 regulatory control period.

### Our 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 covers how often customers have power cuts, how quickly electricity supplies are restored following such cuts and the percentage of customers' calls that were answered by distributors within 30 seconds.

The scheme 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.<sup>2</sup> In STPIS 2.0, we adjusted, amongst other things, the scheme's 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.

Our key amendments in STPIS 2.0 also included the following:

1. altering the weighting ratio ( $w$ ) for the STPIS incentive rates to 1.5 for all network segments (CBD, urban, short and long rural)
2. simplifying the scheme by specifying STPIS outcomes as a fixed monetary amount, rather than as a percentage adjustment to the maximum allowable revenue (MAR)
3. changing the threshold for momentary interruptions from less than 1 minute to less than 3 minutes.<sup>3</sup>

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<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*, November 2018).

<sup>3</sup> AER, *STPIS*, November 2018, clause 3.2.2, table 1, p. 12.

## Our approach to the application of STPIS outlined in the framework and approach (F&A) paper

In the final F&A, we stated that we will continue to apply the distribution STPIS (STPIS 1.0) to Evoenergy in the next regulatory control period.<sup>4</sup>

Our F&A also stated that STPIS 2.0 would apply to Evoenergy in the 2019–24 regulatory period if the review of the scheme is completed prior to the final distribution determination.<sup>5</sup>

### 10.1 Final decision

We will apply the STPIS version 2.0 (November 2018)<sup>6</sup> to Evoenergy for the 2019–24 regulatory period in the following manner:

- set revenue at risk at the range  $\pm 5.0$  per cent
- segment the network according to urban and short rural feeder categories
- 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 Evoenergy's average performance over the past five regulatory years
- apply the method in STPIS 2.0 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.<sup>7</sup>
- not apply the guaranteed service level (GSL) of STPIS 2.0 as Evoenergy is subjected to a jurisdictional GSL scheme.

In making our final decision on STPIS, we have taken into account our draft decision, Evoenergy's regulatory and revised regulatory proposals and submissions raised by stakeholders.<sup>8</sup> Our response to the matters raised by Evoenergy and stakeholders about the application of the STPIS are discussed in section 10.5.

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<sup>4</sup> AER, *Framework and approach ActewAGL Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, pp. 51–52.

<sup>5</sup> AER, *Framework and approach ActewAGL Regulatory control period commencing 1 July 2019 to 30 June 2024*, July 2017, p. 52.

<sup>6</sup> AER, *STPIS*, November 2018.

<sup>7</sup> Australian Energy Market Operator, *Value of customer reliability review, final report*, September 2014.

<sup>8</sup> Evoenergy, *Revised regulatory proposal 2019–24*, January 2019, pp. 80–84.

Table 10.1 and Table 10.2 present our final decision on the applicable incentives rates and targets that will be applied to Evoenergy’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.<sup>9</sup>

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

	Urban	Short rural
SAIDI	0.07078	0.03530
SAIFI	2.71829	1.39658

Source: AER analysis.

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

	value
<b>Urban</b>	
SAIDI	32.524
SAIFI	0.565
<b>Short rural</b>	
SAIDI	35.056
SAIFI	0.591
<b>Telephone answering</b>	
Percentage of calls will be answered within 30 seconds	78.53%

Source: AER analysis.

## 10.2 Our draft decision

We applied the earlier version of the distribution STPIS (November 2009)<sup>10</sup> to Evoenergy for the 2019–24 regulatory period in the draft decision because the revised STPIS (November 2018) was not yet completed at that time.

<sup>9</sup> AER, *STPIS*, November 2009, cl. 5.3.2(a).

<sup>10</sup> AER, *Electricity distribution network service providers—service target performance incentive scheme*, November 2009. (AER, *STPIS*, November 2009).



Our draft decision for Evoenergy applied the national STPIS to the distributor except for the GSL component. It also applied AEMO's published VCR value rather than the STPIS VCR value in calculating the incentive rates.<sup>11</sup>

### 10.3 Evoenergy's revised regulatory proposal

Evoenergy's revised regulatory proposal accepted our draft decision on how the STPIS will apply.<sup>12</sup> For the final decision, Evoenergy requested to apply STPIS 2.0 for the 2019–24 regulatory control period.<sup>13</sup>

Evoenergy also sought to apply the new definitions for reliability metrics outlined in our new Distribution Reliability Measures Guideline (November 2018).<sup>14</sup>

In proposing to apply STPIS 2.0, Evoenergy stated it was concerned that it had insufficient time to recalculate and verify its historical reliability performance before submitting its revised regulatory proposal.<sup>15</sup> However, in March 2019, Evoenergy was able to submit the revised data along with the audit report for our approval.<sup>16</sup>

### 10.4 AER's assessment approach

We are required to make a decision on how the STPIS will apply to Evoenergy in the 2019–24 regulatory control period.<sup>17</sup> When making a distribution determination, STPIS 2.0 requires us to determine all performance targets, incentive rates, revenue at risk and other parameters under the scheme.<sup>18</sup>

We outlined our proposed approach to, and reasons for, the application of the STPIS in our F&A and draft decision for Evoenergy. Our final decision has adopted the position in the draft decision, except for the application of STPIS 2.0 to Evoenergy. We have considered materials submitted to us by Evoenergy and stakeholders.

### 10.5 Reasons for final decision

We will apply STPIS 2.0 to Evoenergy and the following sections set out our considerations in applying the scheme.

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<sup>11</sup> Values determined from the most recent Australian Energy Market Operator (AEMO) review of VCR values; AER, *Draft decision Evoenergy distribution determination - Attachment 10 - STPIS*, September 2018, pp. 11–12.

<sup>12</sup> Evoenergy, *Revised Revenue Proposal 2019–24*, January 2019, pp. 80–41.

<sup>13</sup> Evoenergy, *Revised Revenue Proposal 2019–24*, January 2019, pp. 83–84.

<sup>14</sup> AER, *Distribution Reliability Measures Guideline 2018*, November 2018.

<sup>15</sup> Evoenergy, *Revised Regulatory Proposal 2019–24*, January 2019, p. 84.

<sup>16</sup> Evoenergy, *Response to AER Information request #052 - Re-cast historical STPIS performance data required*, 29 March 2019.

<sup>17</sup> NER, cl. 6.12.1(9).

<sup>18</sup> AER, *STPIS*, November 2018, cl. 2.1(d).

## 10.5.1 Application of revised STPIS to ACT/NSW distributors

We applied STPIS 1.0 to the ACT/NSW distributors in the draft decisions for 2019–24 because STPIS 2.0 had not been finalised at that time.<sup>19</sup>

For the final decision, and consistent with the F&A paper, we will apply STPIS 2.0 because the revised scheme would deliver better outcomes for customers. That is, 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.<sup>20</sup>

Evoenergy also requested to apply STPIS 2.0 in the final decision.<sup>21</sup>

## 10.5.2 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 feeders for the 2019–24 regulatory control period.

### Exclusions

STPIS 2.0 allows certain events to be excluded from the calculation of the s-factor revenue adjustment.

We will apply the exclusions specified in the scheme. We will also calculate the major event day (MED) threshold using the 2.5 beta method in accordance with our F&A paper and draft decision.

### Performance targets

STPIS 2.0 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.<sup>22</sup>

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<sup>19</sup> AER, *Draft decision Evoenergy distribution determination - Attachment 10 - STPIS*, September 2018, pp. 6-7.

<sup>20</sup> AER, <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/service-target-performance-incentive-scheme-2018-amendment/final-decision>.

<sup>21</sup> Evoenergy, *Revised Regulatory Proposal 2019–24*, January 2019, p. 84.

<sup>22</sup> AER, *STPIS*, November 2018, cl. 3.2.1.

We have not approved any reliability improvement capital expenditure and therefore no adjustments to the targets is required. We agree with CCP10's submission that there is no strong case for Evoenergy's reliability improvement capex.<sup>23</sup>

For this final decision, we need to calculate Evoenergy's performance targets in accordance with the new performance measurement methods specified in STPIS 2.0. This involved re-calibrating Evoenergy's historical performance data over the last five regulatory years from 2013–14 to 2017–18.

We received from Evoenergy independently verified historical reliability performance data over the past five years to incorporate the revised definitions for:<sup>24</sup>

- Sustained interruptions (outages longer than 3 minutes only)
- 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 based on the five-year average and the revised definitions for Evoenergy for the 2019–24 regulatory control period are presented in Table 10.3.

### Customer service component

The requirement for this component under STPIS 2.0 is identical to that under the previous version. The STPIS customer service target applicable to Evoenergy 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). Our calculated telephone answering performance targets for Evoenergy for the 2019–24 regulatory control period are presented in Table 10.3.

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<sup>23</sup> CCP10, *CCP10 Response to the Evoenergy Revised Regulatory Proposal 2019-24 and AER Draft Determination*, January 2019, pp. 37–38.

<sup>24</sup> Evoenergy, *Response to AER Information request #052 - Re-cast historical STPIS performance data required*, 29 March 2019.

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

	value
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<b>Short rural</b>	
SAIDI	35.056
SAIFI	0.591
<b>Telephone answering</b>	
Percentage of calls will be answered within 30 seconds	78.53%

Source: AER analysis.

### 10.5.3 Value of Customer Reliability

We calculated the VCR values based on the AEMO 2014 VCR report recommendations, escalated to the October 2018 dollar value, for Evoenergy and other ACT/NSW distributors in our draft decisions.<sup>25</sup>

In its revised proposal, Evoenergy accepted the underlying VCR value from the AEMO 2014 report of \$38,350. For this final decision, we have maintained the same approach in our draft decision and updated VCR values using the December 2018 CPI index.

### 10.5.4 Incentive rates

The incentive rates applicable to Evoenergy for the reliability of supply performance parameters have been calculated in accordance STPIS 2.0.<sup>26</sup>

Our final decision on Evoenergy's incentive rates are in Table 10.4. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.<sup>27</sup>

<sup>25</sup> AER, *Draft decision Evoenergy distribution determination - Attachment 10 - STPIS*, September 2018, pp. 11–12.

<sup>26</sup> AER, *STPIS*, November 2018, cl. 3.2.2 and using the formulae provided in appendix B.

<sup>27</sup> AER, *STPIS*, November 2018, cl. 5.3.2(a).

**Table 10.4 Final decision—STPIS incentive rates for Evoenergy for the 2019–24 regulatory period**

	Urban	Short rural
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SAIFI	2.71829	1.39658

Source: AER analysis.