



FINAL DECISION
United Energy distribution
determination
2016 to 2020

Attachment 18 – f-factor
scheme

May 2016

© Commonwealth of Australia 2016

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

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications
Australian Competition and Consumer Commission
GPO Box 4141, Canberra ACT 2601

or publishing.unit@acc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444

Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

Note

This overview forms part of the AER's final decision on United Energy's distribution determination for 2016–20. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – f-factor scheme

Contents

Note	18-2
Contents	18-3
Shortened forms	18-4
18 F-factor scheme	18-6
18.1 Final decision	18-6
18.2 United Energy's revised proposal	18-7
18.3 Assessment approach	18-7
18.4 Submissions	18-7
18.5 Reasons for final decision	18-7

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMI	Advanced metering infrastructure
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia

Shortened form	Extended form
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

18F-factor scheme

The f-factor scheme is prescribed by the *f-factor scheme order 2011* (the Order) issued under the *National Electricity (Victoria) Act 2005*.¹ The Order confers functions and powers on the AER to implement the f-factor. The objective of the f-factor scheme is to provide incentives for Victorian distributors to:²

- reduce the risk of fire starts due to electricity infrastructure
- reduce the risk of loss or damage caused by fire starts.

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.³ 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.⁴

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 2016.⁵

18.1 Final decision

In the absence of any new scheme, we adopt the preliminary decision on the f-factor scheme as the final decision for United Energy.

We approve United Energy's proposed f-factor scheme target of 134.9 fires per year based on the average of the past five regulatory years.⁶

¹ *National Electricity (Victoria) Act 2005*, s.16C.

² Energy and Resources Legislation Amendment Bill 2010, Explanatory Memorandum, p. 10.

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

⁴ AER, *Final Framework and approach for the Victorian Electricity Distributors*, October 2014, p. 127.

⁵ AER, *Final Framework and approach for the Victorian Electricity Distributors*, October 2014, p. 87.

⁶ Calculation was based on (1) the fire starts data for 2012–2014 from the f-factor RIN; and (2) because audited fire start information was not available for 2010 and 2011, we adopted the fire starts target under the previous scheme as the fire start numbers for 2010 and 2011, in accordance with information provided by United Energy on 13 October 2015 in response to AER's information request (United Energy - IR#037).

18.2 United Energy's revised proposal

United Energy accepted our preliminary decision on the f-factor scheme.⁷

18.3 Assessment approach

Consistent with our approach to assessing United Energy's f-factor scheme in the preliminary decision, we examined the proposed f-factor scheme against the requirements of the F&A as stated above—whether it:

- sets the target based on a 5 years historical average
- maintains the incentive rate of \$25,000 per fire start.

18.4 Submissions

We have not received any submissions on the f-factor scheme.

18.5 Reasons for final decision

United Energy has accepted our preliminary decision on the f-factor scheme. Therefore, we adopt the preliminary decision on the f-factor scheme as the final decision for United Energy.

⁷ United Energy, *Revised regulatory proposal*, January 2016, p. 93.