

Our Ref: REF3218584

22 February 2022

John Cleland  
**CEO, Essential Energy**

Sent by email to: [REDACTED]

cc: [REDACTED]

Dear Mr Cleland

### **Essential Energy erroneous performance data reported under the Service Target Performance Incentive Scheme**

I write to advise that the Australian Energy Regulator has approved Essential Energy's application to revoke our 2019-24 Service Target Performance Incentive Scheme (STPIS) revenue determination. Specifically, the request to correct the performance targets set under the STPIS attachment due to errors arising from incorrect historical performance data previously provided by Essential Energy.

The error relates to the 2015–16, 2016–17, 2017–18 and 2018–19 reporting years. The reported data inadvertently included supply outages that should not have been reported under the STPIS, because they were exempt under the scheme.

Following consultation with relevant consumer stakeholders, we have concluded that the 2019-24 Essential Energy distribution determination is:

- affected by a material error relating to the performance targets under the (STPIS) in that incorrect STPIS penalty amounts for the 2017-18 and 2018-19 reporting years were entered into the revenue cap price control formula of 2019-20 and 2020-21, resulting in an incorrect allowable revenue requirement.

In order to correct the above errors, we have decided:

- pursuant to clause 6.13(a) of the National Energy Rules (NER), to revoke the STPIS and control mechanism attachments of Essential Energy 2019–24 distribution determination on the basis that the distribution determination is affected by these material errors or deficiencies; and
- pursuant to clause 6.13(b) of the NER, to make a new Essential Energy 2019–24 distribution determination in substitution for the revoked distribution determination, which makes amendments to the service target performance incentive scheme and control mechanisms attachments to the extent necessary to correct the relevant errors or deficiencies.

We also acknowledge that, as these issues were not resolved in time for the 2021–22 pricing proposal, Essential Energy reported its STPIS performance outcome for 2019/20 on the same basis as how the incorrect STPIS decision was made. Specifically, the supply outages on Total Fire Bans during the reporting period, should have been excluded from the performance reporting.

As 2019/20 was an exceptional year in terms of the number of total fire ban days due to extreme fire risk environment, this reporting arrangement resulted in Essential Energy receiving an extra STPIS penalty of \$5.7m (\$2021–22).

When Essential Energy provides the corrected performance data for 2019/20, the additional STPIS penalty can be treated as Essential Energy “banked” amount in the 2021–22 pricing proposal under the Banking mechanism of the STPIS.

On this basis, Essential Energy is reminded that it must apply to recover the additional STPIS penalty under the STPIS banking provision through a formal application.

I also acknowledge that Essential Energy has implemented systems to minimise similar reporting data errors from occurring again. Accurate performance data is critical for the AER to exercise its functions to deliver outcomes consistent with the National Electricity Objectives.

Please also note that our decision this time to revoke and substitute a revenue determination due to an error by a distributor should not be taken as precedent for further or future applications to revoke our revenue determinations. In particular, where there is a potential information asymmetry risk that a distributor may only report matters that result in their favour, instead of all matters including events that lead to revenue reductions to the distributor.

Please do not hesitate to contact Kris Funston, Executive General Manager of Network Regulation on [REDACTED] or at [REDACTED] if you would like to discuss further.

Yours sincerely

A large black rectangular redaction box covering the signature of Eric Groom.

Eric Groom  
**AER Board member**