

Essential Energy

8.04 Service Target Performance Incentive Scheme (STPIS) Approach

January 2023

Attachment summary

- > This section sets out our approach to the Service Target Performance Incentive Scheme (STPIS) in 2024–29.
- > We propose that the STPIS target be adjusted to reflect the improved reliability we anticipate with some investments in resilience and reliability.
- > We propose replacing the telephone answering customer service component of the STPIS with a bespoke customer service component designed with our customers.

1. Summary

Purpose

The main purpose of the Australian Energy Regulator's (AER's) Service Target Performance Incentive Scheme (STPIS) is to provide incentives to Distribution Network Service Providers (DNSPs) to:

- maintain the existing level of supply reliability
- efficiently improve supply reliability where it fails to meet the service levels customers expect.

STPIS rewards or penalises a DNSP at the end of each year if their reliability performance is above or below their baseline historic performance, typically measured over five years. There are two exceptions:

- > The reward or penalty is capped at the STPIS revenue at risk percentage, which is determined at each regulatory reset.
- > Where a DNSP is funded to improve overall network performance, STPIS targets are adjusted to reflect this.

The AER uses normalised network performance (removing exclusions and major event days) to set targets and measure performance against them, as the results reflect the interruptions customers experience that the DNSP can influence.

Current regulatory period

The 2019–24 regulatory period was the second period Essential Energy was subject to STPIS. The basis of STPIS is set out in the AER document *Service target performance incentive scheme 2.0.1 Key parameters of STPIS for 2019–24* included:

- > 5 per cent of revenue was at risk, balancing the risk to customers and Essential Energy
- > performance targets were based on average performance trends of actual data over the previous five years
- > the incentive rates were based on the Values of Customer Reliability (VCR) developed by the Australian Energy Market Operator (AEMO)
- > the 'reliability' parameter was applied at 4.5 per cent of revenue at risk
- > the 'telephone answering' parameter was applied at 0.5 per cent of revenue at risk, using a substituted target based on the average answering performance of Victorian DNSPs and an incentive rate of -0.04 per cent per unit.

AER framework and approach

The AER has set out its proposed application of STPIS for the 2024–29 regulatory period in its July 2022 framework and approach publication for New South Wales distributors.² The AER has stated that STPIS will apply in its standard form. Key elements of the AER's framework and approach, and position on STPIS are shown in Table 1.

¹ AER, *Electricity distribution network service providers: Service target performance incentive scheme*, November 2018.

² AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy*, July 2022.

Table 1 – AER’s framework and approach, and position

Scheme design aspect	AER’s position
The maximum revenue at risk under STPIS	Set revenue at risk at ± 5 per cent
How the DNSP’s network will be segmented	Urban, short rural, long rural
The applicable parameters for the service standards factor (s-factor) adjustment of annual revenue across customer service, reliability and quality of supply components	<ul style="list-style-type: none"> > System Average Interruption Duration Index (SAIDI) > System Average Interruption Frequency Index (SAIFI) > AER notes network businesses may develop a Customer Service Incentive Scheme (CSIS) to replace the customer service (telephone answering) parameter of STPIS
Performance targets for the applicable parameters in each network segment	Set performance targets based on the DNSP’s average performance over the previous five-year regulatory period
The criteria for certain events excluded from the calculation of annual performance and performance targets	Apply the methodology indicated in the AER’s document <i>Service target performance incentive scheme 2.0</i>
Incentive rates determining the relative importance of measured performance against targets across applicable parameters in each network segment	Apply the methodology and the AER’s most recent published VCR values to set the incentive rates for SAIDI and SAIFI ³

Our approach

We generally align with the AER’s proposed approach to STPIS, with some minor departures as detailed in section 2. A summary of our approach is included in Table 2.

Table 2 – Essential Energy’s STPIS approach

Scheme design aspect	Essential Energy
The maximum revenue at risk under STPIS	Set revenue at risk at ± 5 per cent (AER’s standard application)
How the DNSP’s network will be segmented	Urban, short rural, long rural
The applicable parameters for the s-factor adjustment of annual revenue across customer service, reliability and quality of supply components	<p>The applicable parameters are SAIDI and SAIFI.</p> <p>The customer service (telephone answering) parameter is replaced by the separate CSIS with the following parameters: percentage of unplanned outages that have an estimated time to restore communicated; time to resolve customer complaints; and customer ease (which includes two sub-parameters based on quarterly surveys and post-interaction surveys)</p>

³ AER, [Values of customer reliability](#).

Scheme design aspect	Essential Energy
Performance targets for the applicable parameters in each network segment	Set performance targets based on the DNSP's average performance over the previous five-year regulatory period but adjusted for anticipated improvements in 2024–29, due to new microgrids, reconductoring project, generators and SAPS
The criteria for certain events excluded from the calculation of annual performance and performance targets	Apply the methodology indicated in the AER's document <i>Service target performance incentive scheme 2.0</i>
Incentive rates determining the relative importance of measured performance against targets across applicable parameters in each network segment	Apply the latest AER's most recent published VCR values to set the incentive rates for SAIDI and SAIFI. ⁴

2. Requirements under the National Electricity Rules

Summary of the National Electricity Rules

Clause 6.6.2(b)(3) of the National Electricity Rules sets out the factors the AER must consider when developing and implementing STPIS:

- (i) the need to ensure that benefits to electricity consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for Distribution Network Service Providers; and*
- (ii) any regulatory obligation or requirement to which the Distribution Network Service Provider is subject; and*
- (iii) the past performance of the distribution network; and*
- (iv) any other incentives available to the Distribution Network Service Provider under the Rules or a relevant distribution determination; and*
- (v) the need to ensure that the incentives are sufficient to offset any financial incentives the Distribution Network Service Provider may have to reduce costs at the expense of service levels; and*
- (vi) the willingness of the customer or end user to pay for improved performance in the delivery of services; and*
- (vii) the possible effects of the scheme on incentives for the implementation of non-network options.*

These factors also form the objectives set out in Clause 1.5 of the STPIS Guideline. Clause 2.2 of the STPIS Guideline requires that DNSPs proposing variations to the scheme must demonstrate how they are consistent with the scheme's objectives.

Customer export curtailment value

With the increase in consumer energy resources, efficient integration into distribution networks is necessary. The customer export curtailment value (CECV) will help guide the efficient levels of network expenditure related to export services. It will act as an essential input into existing and new network planning, investment and incentive schemes.

⁴ AER, [Values of customer reliability](#).

The AER has stated that CECVs could be used in the same way as VCR in STPIS. Details of the integration of CECVs into an incentive scheme will need further development before implementation into STPIS. We have been involved with and continue to work with the AER as it consults stakeholders on this issue.

Customer Service Incentive Scheme

Please refer to **Attachment 8.03 Customer Service Incentive Scheme** for details of our proposed CSIS, which will replace the current STPIS customer service (telephone answering) parameter.

3. Methodology

Targets

SAIDI: 'Total sustained minutes off supply after removing excluded events' are as per the AER determination for the 2019–24 regulatory period. The average of the historical value of SAIDI for the last five years is calculated using this. When this calculation is carried before the end of a financial year, the annual target value for SAIDI is used for the last period of the calculation. The historic five-year average of the 'total value of excluded minutes off supply' is added to the targets to obtain the 'total sustained minutes off supply'.

SAIFI: 'Total sustained customer interruptions after removing excluded events' are as per the AER determination for the 2019–24 regulatory period. The average of the historical value of SAIFI for the last five years is calculated using this. When this calculation is carried before the end of a financial year, the annual target value for SAIFI is used for the last period of the calculation. The historic five-year average of the 'total value of excluded events' is added to the targets to obtain the 'total sustained customer interruptions'.

MAIFI: Not reported or calculated.

Daily performance

SAIDI: 'Total sustained minutes off supply' and 'Total sustained minutes off supply after removing excluded events' are as reported to the AER in the annual reporting Regulatory Information Notices (RINs) for each financial year. 'Total value of excluded events' is calculated subtracting the latter from the former.

SAIFI: 'Total sustained customer interruptions' and 'Total sustained customer interruptions after removing excluded events' are as reported to the AER in the annual reporting RINs for each financial year. 'Total value of excluded events' is calculated subtracting the latter from the former.

MAIFI: Not reported or calculated.

Major Event Days threshold calculation

The Major Event Days (MED) threshold is calculated over the previous five years, using daily SAIDI data in alignment with the Institute of Electrical and Electronics Engineers (IEEE's) method, as stipulated in the STPIS guidelines using the 2.5 beta method. The data distribution is confirmed to be normal via a Q-Q plot of the natural logarithms of the daily SAIDI data.

Incentive rates

Incentive rates are as calculated in Appendix B of the AER's STPIS 2.0 guidelines.

Exclusions

The performance and target calculations exclude the items listed as exclusions as per the AER's document *Service Target Performance Incentive Scheme Version 2.0*. We are interested in the possibility of expanding exclusions to specifically reference the effect of motor vehicle impacts on distribution assets when applying STPIS for the 2024–29 regulatory period. Further analysis is needed to understand the effect of this exclusion before we pursue this suggestion further, it is anticipated any changes will be reflected in the Revised Proposal.

Adjustments to STPIS targets

Essential Energy has an optimised portfolio of replacement investments targeted at maintaining overall reliability, in line with customer preferences.

We engaged thoroughly on the topic of resilience (Attachment 4.02 How engagement informed our Proposal). A small number of programs and projects were not optimised against overall portfolio outcomes, therefore they are considered as having a reliability improvement not accounted for.

The following projects from our resilience plan (Attachment 6.02) were not included in the optimisation process :

- install SAPS
- microgrids
- community resilience (small and portable generators for temporary supply).

In addition, we are proposing an augmentation project to reconductor 66kV to Yass town zone substation, which is expected to also improve reliability.

These projects are expected to be completed incrementally during 2024–29 and improvements are phased across the period. Phased improvements have been based on forecasted delivery programs over the period to calculate an average performance over the period.

Table 3 provides the expected improvement from these projects with resulting adjustments to SAIDI and SAIFI by feeder type.

Table 3 – Essential Energy's proposed adjustments to STPIS targets

Reliability	Feeder Type	SAPS	Microgrids/ Gen	Yass Reconductoring	Generators	Total	% of Existing Target ⁵
SAIFI	All Network	0.0008420	0.004432987	0.000261311	0	0.0055363	0.31%
	Urban	0	0	0	0	0.0000000	0.00%
	Short Rural	0	0.002807594	0.000242991	0	0.0030506	0.16%
	Long Rural	0.0055644	0.017318012	0.00069029	0	0.0235727	0.80%
SAIDI (mins)	All Network	0.101774452	0.884354195	0.030919079	0.026813	1.04386	0.49%
	Urban	0	0	0	0.08477	0.08477	0.12%
	Short Rural	0	0.655327192	0.0287514	0.01334	0.69742	0.34%
	Long Rural	0.672550438	3.048623734	0.081677	0.00646	3.80931	0.85%

⁵ Percentage change based on current five-year average performance. Percentage value will change on recalculation of 2024-2029 targets