



FINAL DECISION

**SA Power Networks
Distribution Determination
2020 to 2025**

**Attachment 10
Service target performance
incentive scheme**

June 2020

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Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to SA Power Networks for the 2020–25 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 17 – Connection policy

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Attachment A – Negotiating framework

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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 service target performance incentive scheme (STPIS) is to apply in the next regulatory control period.

This attachment sets out our final decision on how we will apply the STPIS to SA Power Networks for the 2020–25 regulatory control period.

AER's service target performance incentive scheme

We published the current version (version 2.0) of our national STPIS in November 2018.¹ 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.

AER draft decision on the approach to the application of STPIS

In our draft decision, we stated that we will continue to apply the distribution STPIS to SA Power Networks in the next regulatory control period. We proposed to:

- set revenue at risk at ± 5 per cent
- segment the network according to the CBD, urban, and short and long rural feeder categories
- apply the system average interruption duration index or SAIDI, system average interruption frequency index or SAIFI and customer service (telephone answering) parameters
- set performance targets based on SA Power Networks' 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 published in the Australian Energy Market Operator 2014 VCR report
- not apply the Guaranteed Service Level (GSL) component as SA Power Networks remains subject to a jurisdictional GSL scheme.²

¹ AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018. (AER, *STPIS v2.0*, November 2018).

² AER, *Draft Decision SA Power Networks Distribution Determination 2020 to 2025 Attachment 10 Service target performance incentive scheme*, October 2019, p. 10–5.

10.1 Final decision

Our final decision is to apply the STPIS to SA Power Networks for the 2020–25 regulatory control period. This is consistent with our draft decision on the application of the STPIS and our 2020–25 determinations for SA Power Networks.

We have taken into account SA Power Networks' revised revenue proposal, submissions raised by stakeholders and our draft decision in reaching our final decision.³ Our response to the matters raised by SA Power Networks about the application of STPIS is discussed below.

Table 10.1 and Table 10.2 present our final decision on the applicable incentive rates and targets that will apply to SA Power Networks for the 2020–25 regulatory period. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.⁴

Table 10.1 Final decision—STPIS incentive rates for SA Power Networks for the 2020–25 regulatory period

	CBD	Urban	Short rural	Long rural
SAIDI	0.0032	0.0461	0.0086	0.0086
SAIFI	0.2609	3.0545	0.7309	1.0435

Source: AER analysis.

³ SA Power Networks, *2020–25 Revised Regulatory Proposal*, December 2019, p. 27; SA Power Networks, *2020–25 Revised Regulatory Proposal, Attachment 10 - Service Target Performance Incentive Scheme*, 10 December 2019; AER, *Draft Decision SA Power Networks Distribution Determination 2020 to 2025 Attachment 10 Service target performance incentive scheme*, October 2019.

⁴ AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018. (AER, *STPIS v2.0*, November 2018).

Table 10.2 Final decision—STPIS reliability targets for SA Power Networks for the 2020–25 regulatory period

	Value
CBD	
SAIDI	22.539
SAIFI	0.185
Urban	
SAIDI	105.093
SAIFI	1.057
Short rural	
SAIDI	181.893
SAIFI	1.427
Long rural	
SAIDI	277.847
SAIFI	1.526
Telephone answering	
Percentage of calls will be answered within 30 seconds	78.0%

Source: AER analysis.

10.2 SA Power Networks' revised proposal

SA Power Networks' revised proposal accepted our draft decision on how the STPIS will apply, with an exception – its proposed adjustment to reliability targets relating to the proposed expenditure for reliability improvement. It also proposed minor performance target modifications as a result of:

- CBD and urban feeder category reclassification by the Essential Services Commissioner of South Australia (ESCoSA)

- accounting for the effect of the potential cessation of a jurisdictional derogation, which allows SA Power Networks to interrupt power supply without giving a 4–day notice for outages shorter than 15 minutes in duration.⁵

10.3 Assessment approach

We are required to make a decision on how the STPIS is to apply to SA Power Networks.⁶ 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.⁷

We outlined our proposed approach to, and reasons for, the application of the STPIS in our framework and approach and draft decision for SA Power Networks. Our final decision has adopted the position in the draft decision. We have considered materials submitted to us by SA Power Networks and by stakeholders.

10.4 Reasons for final decision

We will apply the STPIS to SA Power Networks in accordance with the scheme. This includes using the latest 2019 reliability data to calculate SA Power Networks' performance targets for the next regulatory period.

The following section sets out our detailed consideration on applying the STPIS to SA Power Networks for the 2020–25 regulatory period.

10.4.1 Submissions

The Victorian Cross Border Commissioner raised his concerns about the poor performance of SA Power Network's feeder supplying Nelson, a small town in southwest Victoria.⁸

In a joint response with Powercor to our queries, SA Power Networks stated that it has an 11kV power line 'feeder' (MG19 Eight Mile Creek) which supplies customers on the South Australian side of the connection near the Victorian border.⁹ Powercor supplies the township of Nelson from that border connection. The section of the feeder and customers on the South Australian side of the border are subject to the South Australian jurisdictional standards and GSL scheme, and the section of the feeder and customers on the Victorian side are subject to the Victorian jurisdictional standards and GSL scheme.

⁵ SA Power Networks, *2020–25 Revised Regulatory Proposal*, December 2019, p. 27; SA Power Networks, *2020–25 Revised Regulatory Proposal, Attachment 10 - Service Target Performance Incentive Scheme*, 10 December 2019.

⁶ NER, cl. 6.12.1(a).

⁷ AER, *STPIS*, November 2018, cl. 2.1(d).

⁸ Cross Border Commissioner, *Submission on SA Power Networks Draft Decision 2020–25*, January 2020.

⁹ SA Power Networks, *Email to AER - Joint response from SA Power Networks and Powercor regarding the cross-border lines supplying Nelson*, 24 February 2020.

We have included SA Power Networks' 'low reliability feeder' program in our substitute capital expenditure (capex) forecast, which includes proposed work on MG19 Eight Mile Creek. SA Power Networks submitted that this expenditure will improve the reliability performance of the feeder's 'backbone' which ultimately supplies Nelson. Consequently, the reliability of supply to Nelson should also improve once the work is complete.

It should also be noted that, while the supply reliability is affected by the upstream availability in the South Australia source, Powercor is responsible for the operations and maintenance of the Victorian side of the feeder supplying Nelson.

10.4.2 Revenue at risk

Revenue at risk caps the potential reward and penalty for SA Power Networks under the STPIS. We consider an incentive of ± 5.0 per cent of the annual allowable revenue is appropriate for SA Power Networks because it has demonstrated strong reliability performance; hence, a ± 5.0 per cent limit is a good balance between the incentives to maintain reliability versus consumer price impact.

10.4.3 Reliability of supply component

Applicable components and parameters

We will apply unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to SA Power Networks' feeders for the 2020–25. Unplanned SAIDI measures the sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers. Unplanned SAIFI measures the total number of unplanned sustained customer interruptions divided by the total number of distribution customers.

Exclusions

The STPIS allows certain events to be excluded from the calculation of the s-factor revenue adjustment. These exclusions include the events specified in the STPIS, such as the effects of transmission network outages and other upstream events. They also exclude the effects of extreme weather events that have the potential to significantly affect SA Power Networks' underlying STPIS performance.

SA Power Networks proposed to calculate the major event day threshold using the 2.5 beta method in accordance with our draft decision.

Performance targets

The STPIS 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;¹⁰ and

- where the actual performance outcome exceeds the revenue at risk cap.¹¹

We received no submissions from stakeholders regarding the application of SA Power Networks' performance targets.

Our calculated performance targets for SA Power Networks for the 2020–25 regulatory control period are presented in Table 10.2.

Adjusting the performance targets where past STPIS reward/penalty is capped by revenue at risk limit of the previous distribution determination

Under the STPIS, where the past performance of a distributor exceeded its revenue at risk thresholds, its performance targets must be adjusted accordingly. This will ensure a balanced outcome for both the distributor and its customers.

We have reviewed and accepted SA Power Networks' proposal, which has adopted the method specified by STPIS version 2.0 to calculate this adjustment.

Adjusting the performance targets to account for approved capital expenditure for lower reliability feeders

Our final decision has included capex for programs to improve reliability of feeders in the low reliability feeder category.¹² SA Power Networks' proposed these programs to arrest the declining reliability performance of supply from 95 of its worst performing feeders through a combination of works, including:

- re-insulation of poor performing line sections
- installation of reclosers and sectionalisers
- undergrounding of critical line sections
- upgrading critical bare wire line sections with covered conductors.¹³

We have reviewed and are satisfied with SA Power Networks' economic analysis on the reliability impact from these projects. Consequently, we have made adjustments to SA Power Networks' reliability targets in accordance with the scheme. Please refer to the capex attachment for further details about these projects.

¹⁰ AER, *STPIS v2.0*, November 2018, cl. 3.2.1(a)(1A).

¹¹ AER, *STPIS v2.0*, November 2018, cl. 3.2.1(a)(1B).

¹² SA Power Networks, *2020–25 Revised Regulatory Proposal, Attachment 10 - Service Target Performance Incentive Scheme*, p. 18, 10 December 2019; SA Power Networks Attachment 5.16 – 2020–25 Reliability and Resilience Programs - Low Reliability Feeders - December 2019.

¹³ SA Power Networks, *2020–25 Revised Regulatory Proposal, Attachment 5.16 – 2020–25 Reliability and Resilience Programs - Low Reliability Feeders - December 2019*.

Adjusting the performance targets due to feeder category reclassification

We have also included minor adjustments to performance targets to take into account the CBD and urban feeder category reclassification as approved by ESCoSA.

No adjustment to the performance targets for a potential change of the current jurisdictional derogation to exempt the need for planned outage notices, where the outages are shorter than 15 minutes

We have not included any adjustment to performance targets to account for the cessation of a jurisdictional derogation proposed by SA Power Networks. This is because:

- As this current derogation has been in operation for more than 10 years,¹⁴ we consider that the probability of this change, which is under consultation by the ESCoSA, is not likely.
- Further, even if the current derogation is to be revoked, we consider that SA Power Networks should be providing the necessary planned outage notices to its customers as required by the energy rules, rather than treating the outages as unplanned outages.

10.4.4 Customer service component

The STPIS customer service target applicable to SA Power Networks 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. The revenue at risk for the customer service component is capped at ± 0.5 per cent.

We received no submissions from stakeholders regarding the application of SA Power Networks' customer service performance target.

Our calculated performance targets for SA Power Networks for the 2020–25 regulatory control period are presented in Table 10.2.

10.4.5 Value of customer reliability to calculate the incentive rates

Our draft decision stated that we will apply the latest value for VCR through the distribution determination in calculating SA Power Networks' incentive rates.¹⁵ Hence, for this final decision, we have calculated SA Power Networks' VCR for the incentive

¹⁴ SA Power Networks, *Emails to AER regarding 15 minute planned interruption derogation*, 21 February, 18 March 2020.

¹⁵ AER, *Draft Decision SA Power Networks Distribution Determination 2020 to 2025 Attachment 10 Service target performance incentive scheme*, October 2019, p. 11.

rates by using our Value of Customer Reliability Review published in December 2019.¹⁶

The VCR for network segments is outlined in Table 10.3. We have applied this VCR to calculate SA Power Networks' incentives rates for 2020–25.

Table 10.3 Value of customer reliability (\$/MWh)

	CBD	Urban	Short rural	Long rural
VCR	45,063	43,757	43,757	43,757

Source: AER, *Value of customer reliability review, final report*, December 2019, p. 17 and p. 71. VCR values have been escalated to the December 2019 quarter.

10.4.6 Incentive rates

The incentive rates applicable to SA Power Networks 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 at appendix B of the National STPIS v2.0. Our final decision on SA Power Networks' incentive rates is in Table 10.1. The incentive rate for the customer service component will be –0.040 per cent per unit of the telephone answering parameter.¹⁷

¹⁶ AER, *Values of Customer Reliability Review - Final Report*, December 2019.

¹⁷ AER, *STPIS v2.0*, November 2018, cl. 5.3.2(a).

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	capital expenditure
distributor	distribution network service provider
NER	National Electricity Rules
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
