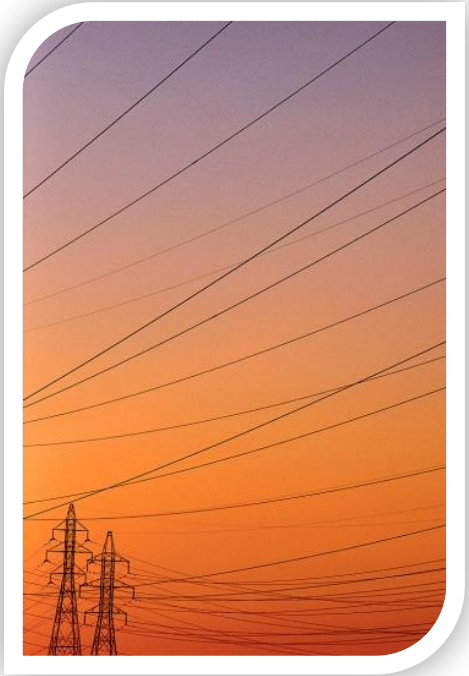
Incentive schemes: an introduction



22 March 2018

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What schemes do we have?

The NER requires us to publish 4 schemes:

1. Efficiency benefit sharing scheme (EBSS)
2. Capital expenditure sharing scheme (CESS)
3. Service target performance incentive scheme (STPIS)
4. Demand management incentive scheme (DMIS)

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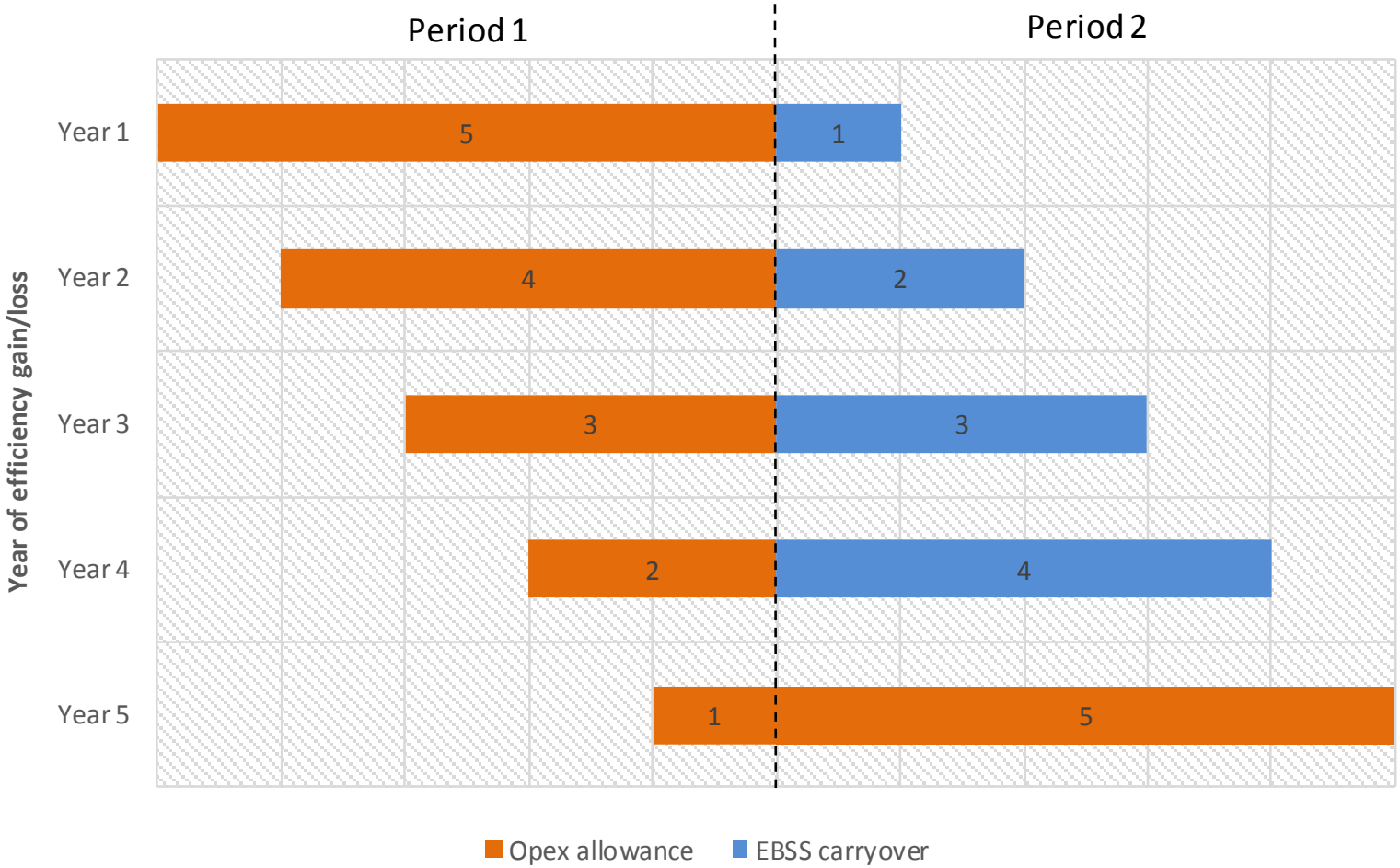
Efficiency benefit sharing scheme



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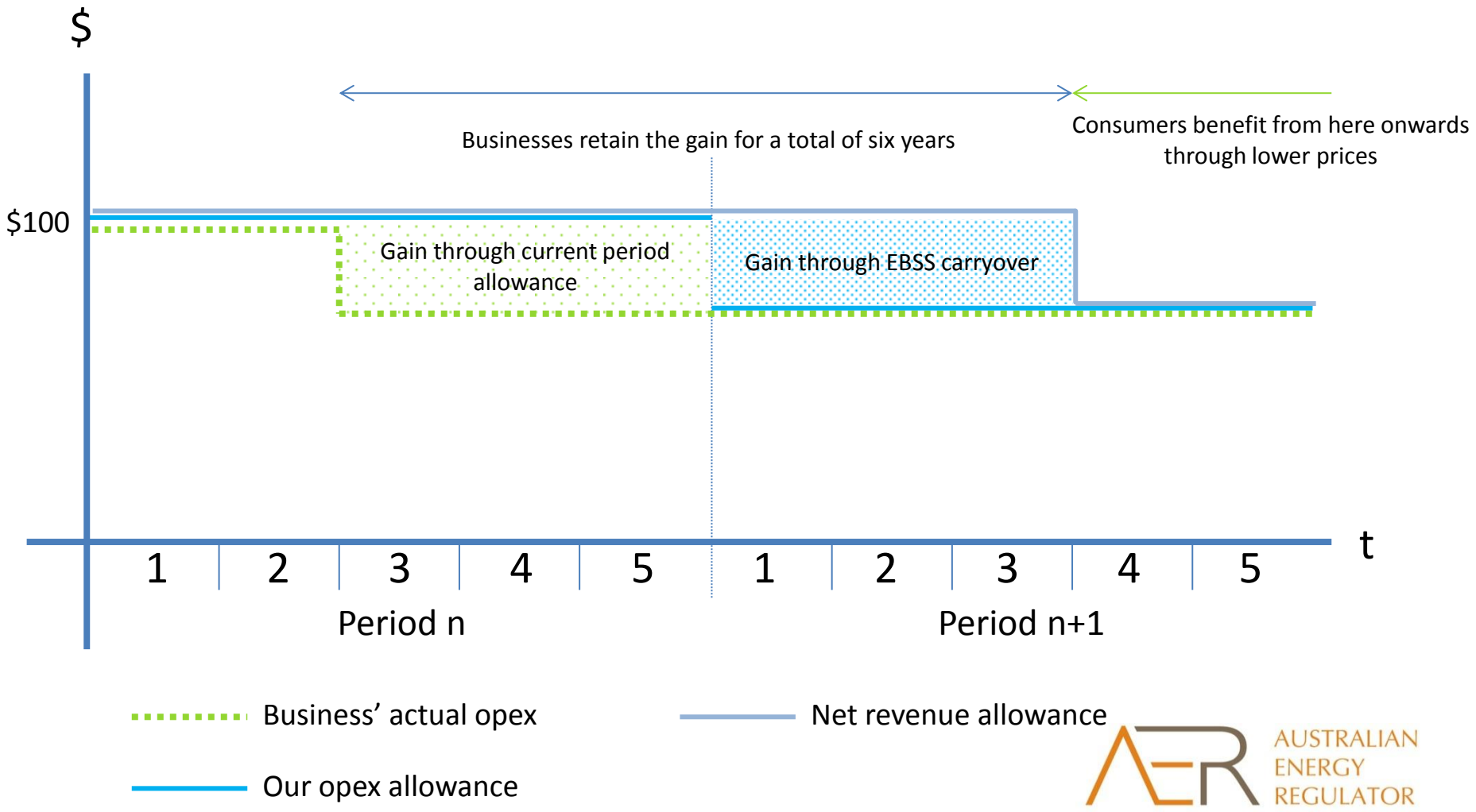
EBSS example – recurrent gain

Recurrent gain from 3rd year of period n



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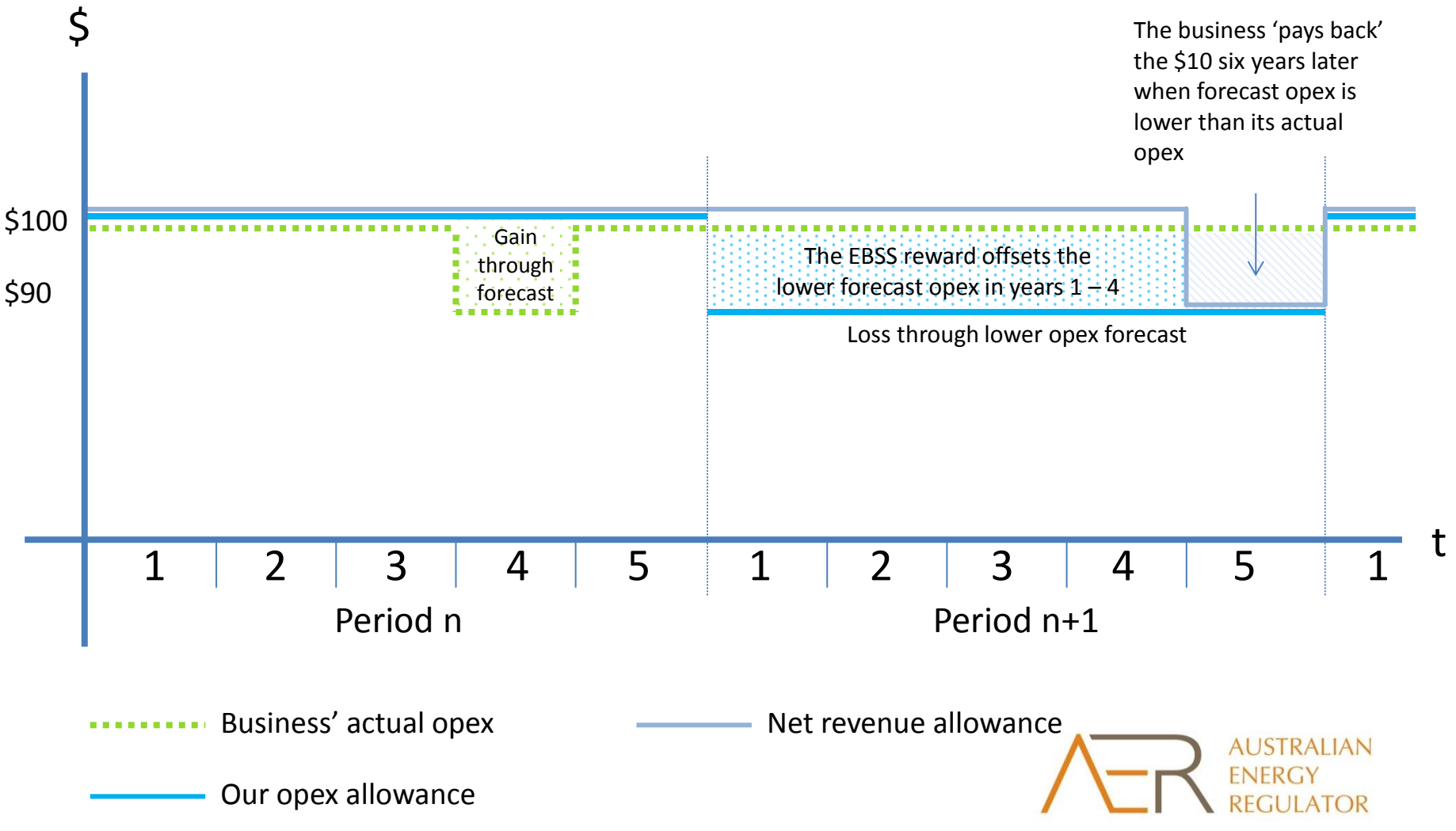
EBSS example – non-recurrent gain

What if we have a non-recurrent gain in year 4?



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Capital expenditure sharing scheme

NSP benefit from reducing capex because they continue to receive a return on the unspent capex until the end of the period.

The CESS calculates the benefit retained within period and the additional amount required for the NSP to retain 30 per cent of the total benefit.

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Service target performance incentive scheme

The aim of the STPIS is to provide an incentive to maintain reliability and make reliability improvements that customers value.

Distributors receive rewards (penalties) if they outperform (underperform) performance targets.

The value of rewards (penalties) are based on the value of customer reliability (VCR).

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Demand management incentive scheme

Cost uplift: gives distributors up to 50 per cent of their expected demand management costs

Net benefit constraint: the payment cannot outweigh the value (or net benefit) of the demand management project

Overall incentive constraint: the total payments in any year cannot exceed 1 per cent of the distributors allowed revenue for that year

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Demand management incentive allowance

The DMIA provides an allowance to undertake innovative demand management projects.

It is calculated annually as $200,000 + 0.075% of annual revenue.

If not spent the allowances is passed back to network users at the end of the control period.

The distributor will bear any overspend of the allowance.

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