National Electricity (Victoria) Act 2005
F-FACTOR SCHEME ORDER 2016
Order in Council

The Governor in Council, under section 16C of the National Electricity (Victoria) Act 2005, makes the following Order:

1. **Purpose**
   The purpose of this Order is to revoke the previous f-factor scheme Order that commenced on 23 June 2011, and to provide for the establishment of a new f-factor scheme that targets incentives towards ignitions that pose the greatest risk of harm through the use of ignition risk units (IRU’s).

2. **Commencement**
   This Order comes into effect on the day it is published in the Victoria Government Gazette.

3. **Revocation of previous f-factor Order**

4. **Interpretation**
   (1) In this Order and unless the context otherwise requires –
   - **2016-2020 regulatory control period** means the regulatory control period 1 January 2016 to 31 December 2020;
   - **Central Plan Office** means the Central Plan Office of the Department of Environment, Land, Water and Planning;
   - **electric line construction area** has the same meaning as it has in the Electricity Safety (Bushfire Mitigation) Regulations 2013;
   - **f-factor scheme** means an incentive scheme that provides incentives for Distribution Network Service Providers to reduce the risk of fire starts and reduce the risk of loss or damage caused by fire starts;
   - **fire danger rating** means a forecast rating announced by the Bureau of Meteorology that represents the fire danger index predicted for a specific area in which a fire is located;
   - **fire start** – see clause 5;
   - **fire start report** – see clause 6;
   - **hazardous bushfire risk area** has the same meaning as it has in the Electricity Safety Act 1998;
   - **IRU** means ignition risk unit;
   - **IRU amount** – see clause 11;
   - **IRU target** – see clause 10;
   - **polyphase electric line** has the same meaning as it has in the Electricity Safety (Bushfire Mitigation) Regulations 2013;
   - **relevant Distribution Network Service Provider**, for the purpose of calculating a revenue adjustment, means the particular Distribution Network Service Provider for whom the revenue adjustment is being calculated;
   - **relevant distribution system**, for the purpose of calculating a revenue adjustment, means the distribution system that is owned, operated or controlled by the relevant Distribution Network Service Provider;
relevant financial year, for the purpose of calculating a revenue adjustment under clause 9, an IRU target or an IRU amount, means the financial year ending 18 months prior to the commencement of the regulatory year for which the revenue adjustment is being calculated.

Example: For the regulatory year commencing 1 January 2020, the relevant financial year is the 2017/18 financial year.

required clearance space means a clearance space required under the Code of Practice for Electric Line Clearance as prescribed pursuant to Part 8 of the Electricity Safety Act 1998.

Note: See regulation 7 and Schedule 1 to the Electricity Safety (Electric Safety (Electric Line Clearance) Regulations 2015.

revenue adjustment means a revenue adjustment under clause 9 or clause 13, and may be positive or negative;

tree has the same meaning as it has in the Electricity Safety Act 1998 and includes (without limitation) a hazard tree within the meaning of section 86B of that Act.

Note: Tree, as defined in section 3 of the Electricity Safety Act 1998, includes vegetation.

validation report – see clause 7.

(2) Unless the context otherwise requires, words and expressions used in the National Electricity (Victoria) Law or the National Electricity Rules have the same meaning in this Order as they have in that Law or those Rules.

Note: Used in this Order are distribution system, distribution consultation procedures, framework and approach paper, national electricity objective, publish, regulatory control period, regulatory year and relevant entity which are all defined in either the National Electricity (Victoria) Law or the National Electricity Rules.

5. What is a fire start?

(1) A fire start is any fire –
(a) that starts in or originates from a distribution system;
(b) started by any tree, or part of a tree, falling upon or coming into contact with a distribution system;
(c) started by any person, bird, reptile or other animal coming into contact with a distribution system;
(d) started by lightning striking a distribution system or a part of a distribution system;
(e) started by any other thing forming part of or coming into contact with a distribution system; or
(f) otherwise started by a distribution system.

(2) For the purposes of clause 5(1)(b), it is irrelevant whether the tree or part of the tree that fell upon or came into contact with the distribution system is or was, before the fire start, inside or outside a required clearance space.

6. Fire start reports

(1) The AER may request a Distribution Network Service Provider to provide a fire start report in respect of a financial year.

Note: See section 16G of the National Electricity (Victoria) Act 2005.

(2) The AER’s request must be in writing and must specify when the fire start report is to be provided which shall be no later than 30 September in each year.
(3) A fire start report must—
(a) be in electronic format;
(b) be in the form that the AER from time to time specifies;
(c) be signed by a director of the Distribution Network Service Provider, or other officer of the Distribution Network Service Provider approved by the AER;
(d) if the Distribution Network Service Provider is the service provider in relation to more than one distribution system, distinguish between distribution systems;
(e) list all fire starts for a financial year, stating in each case and where known;
   (i) what kind of fire start it was;
   (ii) the date, time and latitude and longitude for each fire;
   (iii) the unique identification number of the pole and polyphase electric line nearest to the fire start;
   (iv) the voltage of the electric line in which the ignition occurred;
   (v) the estimated value of the fire start expressed in IRUs, calculated in accordance with this Order;
(f) state whether the fire was reported to a relevant entity;
(g) calculate the total IRU amount for the financial year on the basis of information contained in the fire start report, in accordance with this Order;
(h) include such other information as the AER may from time to time specify;
(i) include an independent audit of the fire start report undertaken by an external auditor;
   (i) stating, in the auditor’s opinion, whether the information contained in the fire start report is accurate and reliable; and
   (ii) which is acceptable to the AER.

Note: Clause 5(1) specifies the various kinds of fire starts.

(4) The AER may develop and publish guidelines as to the form of a fire start report and information to be included in a fire start report.

(5) The AER must publish a fire start report.

(6) This clause does not require, prevent or limit the AER serving a regulatory information instrument.

Note: See also section 166(1)(d) of the National Electricity (Victoria) Act 2005 which has the effect that the AER may also make and serve regulatory information instruments for the purposes of this Order.

7. Validation of fire start reports by Energy Safe Victoria

(1) The AER may request Energy Safe Victoria to conduct and provide a validation of a fire start report.


(2) The AER’s request must be in writing and must specify when the report on the validation (the validation report) is to be provided which shall be no later than 30 November in each year.

(3) A validation report—
(a) must be in writing;
(b) must include an assessment of the accuracy of the information provided in the fire start report pursuant to clauses 6(3)(d)–(f) and (h);
(c) must verify the estimate of the IRU amount for the financial year provided under clause 6(3)(g);
(d) must include such other information as the AER may from time to time specify; and

(e) may otherwise be in the nature of a due diligence inquiry.

(4) In a validation, Energy Safe Victoria may have regard to—

(a) any information (including information given in confidence) in the possession or control of Energy Safe Victoria;

Note: See section 7A(1) of the Energy Safe Victoria Act 2005.

(b) any information provided to Energy Safe Victoria by the AER for the purposes of the validation, which may include information obtained pursuant to section 16G of the National Electricity (Victoria) Act 2005, clause 6 or a regulatory information instrument; and

(c) any further information that Energy Safe Victoria may request a Distribution Network Service Provider to provide for the purposes of the validation.

(5) The AER must publish a validation report, and must notify the Distribution Network Service Provider whose fire start report is the subject of the validation, of the publication of the validation report.

(6) Within 15 business days of being notified by the AER under subclause (5) of the publication of the validation report, the Distribution Network Service Provider may make submissions to the AER in respect of the validation.

(7) The AER may provide any submissions referred to in subclause (6) to Energy Safe Victoria, and may request Energy Safe Victoria to conduct and provide a revised validation responding to those submissions.

(8) A request under subclause (7) must be in writing and must specify when the revised validation report is to be provided which shall be no later than 15 February in the year following the year in which the validation was first provided.

(9) A revised validation must comply with subclauses (3) and (4).

(10) The AER must publish a revised validation report, and must notify the Distribution Network Service Provider whose fire start report is the subject of the validation, of the publication of the revised validation report.

(11) This clause does not require, prevent or limit the AER serving a regulatory information instrument.

8. F-factor scheme determination

(1) The AER must make an F-factor scheme determination in accordance with this Order, in respect of each regulatory control period.

Note: Pursuant to section 16E(1)(a) and (b) of the National Electricity (Victoria) Act 2005, the AER must perform or exercise its functions and powers under this Order in a manner that will or is likely to contribute to the achievement of the national electricity objective.

(2) An F-factor scheme determination made in respect of the 2016–2020 regulatory control period must be made no later than 30 September 2018.

(3) An F-factor scheme determination made in respect of a regulatory control period subsequent to the 2016–2020 regulatory control period must be made so as to take effect at the commencement of the regulatory control period.

(4) The AER must publish an F-factor scheme determination. An F-factor scheme determination may be published as part of a distribution determination for the relevant regulatory control period.
9. **Revenue adjustment**

(1) An f-factor scheme determination must establish an f-factor scheme under which there is a revenue adjustment for each Distribution Network Service Provider.

(2) A separate revenue adjustment must be made for each Distribution Network Service Provider for the 2015, 2016 and 2017 regulatory years in accordance with the previous f-factor scheme Order, as if that Order had not been revoked.

(a) A determination made under the previous f-factor scheme Order continues in force for the purposes of this subclause (2).

(3) A separate revenue adjustment must be made for each Distribution Network Service Provider for the 2018 regulatory year, in accordance with clause 13.

(4) A separate revenue adjustment must be made for each Distribution Network Service Provider for the 2019 regulatory year, and for each subsequent regulatory year, in accordance with the following formula –

\[ \text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount}) \]

where –

(i) **Revenue adjustment** is the adjustment to the revenue for the relevant Distribution Network Service Provider for the regulatory year;

(ii) **Incentive rate** is $15,000;

(iii) **IRU target** is the IRU target applicable for the relevant financial year for the relevant Distribution Network Service Provider, as specified in clause 10; and

(iv) **IRU amount** is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11.

*Note: See the definition of 'relevant financial year' in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target and IRU amount for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.*

(5) An f-factor scheme determination may specify how the revenue adjustment is to occur. For the avoidance of doubt and without limitation, the revenue adjustment may –

(a) be by way of a pass through;

(b) be by way of an annual adjustment to be included in the control mechanism for a distribution determination;

(c) be expressed as a percentage adjustment to revenue;

(d) take effect over more than one regulatory year; and

(e) take effect over more than one regulatory control period.

(6) For the purposes of a distribution determination, a revenue adjustment is not revenue of, expenditure by or a cost of a Distribution Network Service Provider unless the AER determines otherwise.

(7) For the purposes of subclauses (3) and (4), the AER may have regard to any determination made under the previous f-factor scheme Order.
10. **IRU target**

(1) The IRU targets for each Distribution Network Service Provider for each of the following relevant financial years are:

<table>
<thead>
<tr>
<th>Relevant financial year</th>
<th>Distribution Network Service Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AusNet</td>
</tr>
<tr>
<td>FY 2016/17</td>
<td>247.7</td>
</tr>
<tr>
<td>FY 2017/18</td>
<td>247.7</td>
</tr>
<tr>
<td>FY 2018/19</td>
<td>247.7</td>
</tr>
<tr>
<td>FY 2019/20</td>
<td>221.1</td>
</tr>
</tbody>
</table>

*Note: See the definition of 'relevant financial year' in clause 4. By reason of that definition, the revenue adjustment for a regulatory year is made on the basis of the IRU target for the relevant financial year, which ends 18 months prior to the commencement of the regulatory year.*

Therefore, the IRU target for FY2016/17 is used to calculate the revenue adjustment for 2019, the IRU target for FY2017/18 is used to calculate the revenue adjustment for 2020, and so on.

(2) The IRU targets for relevant financial years after the 2019/20 financial year may be published by the Minister by notice in the Victoria Government Gazette.

(3) If the Minister does not publish the IRU target for a relevant financial year under subclause (2), the IRU target for that financial year is the same as the IRU target for the 2019/20 financial year as specified in the table in subclause (1).

11. **IRU amount**

(1) Subject to subclauses (3) and (5), the AER must calculate the IRU amount accrued by the relevant Distribution Network Service Provider in the relevant financial year in the relevant distribution system in accordance with the following formula –

\[
IRU \text{ amount} = \sum_{f=1}^{n} \text{danger multiplier}_f \times \text{location multiplier}_f
\]

where \( n \) is the total number of fire starts determined under clause 12 to have occurred in the relevant distribution system during the relevant financial year and –

(a) **danger multiplier** is, for fire start \( f \)–

(i) 0.1 where no fire danger rating is forecast at the time the fire started;

(ii) 0.2 where the fire danger rating is low-moderate at the time the fire started;

(iii) 0.5 where the fire danger rating is high at the time the fire started;

(iv) 1 where the fire danger rating is very high at the time the fire started;

(v) 2 where the fire danger rating is severe at the time the fire started;

(vi) 3.5 where the fire danger rating is extreme at the time the fire started; or

(vii) 5 where the fire danger rating is Code Red at the time the fire started.
(b) **location multiplier** is, for fire start $f$—

(i) 0.2 where the fire start occurred in an area that is not a hazardous bushfire risk area; or

if the fire start occurred in a hazardous bushfire risk area, the highest applicable value of—

(ii) 1;

(iii) 4.6 where the fire start occurred in an area delineated and bounded in red as represented on the plan lodged in the Central Plan Office and numbered LEGL./16-354; or

(iv) 19.8 where the fire start occurred in an electric line construction area.

Note: for fire starts that occurred in a hazardous bushfire risk area, the location multiplier values are not mutually exclusive and the highest applicable value applies. For example, if a fire start occurs in an area that is an electric line construction area (i.e. clause 11(1)(b)(iv) applies) and at the same time, that area also falls within an area delineated and bounded in red on plan LEGL./16-354 (i.e. clause 11(1)(b)(iii) applies), the location multiplier value would be 19.8 not 4.6 because 19.8 is the highest value applicable to that fire start.

(2) In determining the IRU amount for a financial year, the AER may have regard to the reports, submissions and information specified in clause 12(1). This subclause does not limit the matters that the AER may have regard to in determining the IRU amount.

(3) If the AER considers that the reports, submissions and information specified in clause 12(1) cannot be used, or are not suitable to be used, to determine the IRU amount, the AER may—

(a) determine the IRU amount to be 1.5 times the IRU target; or

(b) determine the IRU amount to be some other amount, having regard to the information referred to in clause 12(2).

(4) The AER must consult with the relevant entities in any case where the IRU amount is to be determined in accordance with subclause (3).

(5) Notwithstanding anything in this clause, if no fire danger rating is forecast at the time that a fire started (i.e. subclause (1)(a)(i) applies) and the fire start occurred in an electric line construction area (i.e. subclause (1)(b)(iv) applies), the value of the danger multiplier times the location multiplier for that individual fire start is 1.

12. Number of fire starts

(1) In determining the IRU amount or the number of fire starts that occurred in a relevant distribution system for a financial year, the AER may have regard to—

(a) a fire start report;

(b) a validation report (or revised validation report);

(c) a Distribution Network Service Provider’s submissions provided under clause 7;

(d) any information obtained pursuant to a regulatory information instrument; and

(e) any information relating to fire starts the AER receives from a relevant entity pursuant to a request made under section 16G of the **National Electricity (Victoria) Act 2005** and clause 6.

(2) If there is no or incomplete data for fire starts for any financial year, or the AER considers the data or any part thereof inadequate for any reason, the AER may use—

(a) the number of fire starts that occurred in relation to the relevant distribution system in other financial years;
(b) the number of fire starts that occurred in relation to a reasonably comparable
distribution system; and

(c) estimates,

which may be determined having regard to any information the AER considers
appropriate, including the reports, submissions and information specified in
subclause (1).

(3) Subclause (2) does not prevent the AER using all or any part of the incomplete or
inadequate data.

(4) The AER must consult with the relevant entities when determining the number of fire
starts.

(5) This clause does not require, prevent or limit the AER serving a regulatory information
instrument.

13. Transitional arrangements for 2018 revenue adjustment

(1) A separate revenue adjustment must be made for each Distribution Network Service
Provider for the 2018 regulatory year in accordance with the following formula –

\[
\text{Transitional adjustment} = \text{Transitional rate} \times (\text{Transitional target} - \text{Number of fires})
\]

where –

(i) \text{Transitional adjustment} is the adjustment to the revenue for the relevant
Distribution Network Service Provider for the 2018 regulatory year;

(ii) \text{Transitional rate} is $25,000;

(iii) \text{Transitional target} is the number of fire starts for the first six months of the
2016 regulatory year as specified in the following table:

<table>
<thead>
<tr>
<th>Distribution Network Service Provider</th>
<th>AusNet</th>
<th>CitiPower</th>
<th>Jemena</th>
<th>Powercor</th>
<th>United Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transitional target (fire starts)</td>
<td>109.0</td>
<td>18.6</td>
<td>50.2</td>
<td>237.2</td>
<td>98.0</td>
</tr>
</tbody>
</table>

(iv) \text{Number of fires} is the number of fire starts determined under clause 12 to have
occurred in the first six months of the 2016 regulatory year.

14. Consultation procedures

(1) The distribution consultation procedures set out in clause 6.16 of the National
Electricity Rules (as amended by this clause) are taken to apply and must be followed
by the AER when it makes a decision to vary a distribution determination pursuant to
clause 6.13A of the National Electricity Rules.

\text{Note: Clause 6.13A is inserted in the National Electricity Rules by section 16E(2)(a) of the National Electricity (Victoria) Act 2005.}

(2) In making an f-factor scheme determination, the AER must follow –

(a) the distribution consultation procedures set out in clause 6.16 of the National
Electricity Rules as amended by this clause; or

(b) the procedures for making a distribution determination set out in clauses 6.8
to 6.11 inclusive and clause 6.12.2(a) of the National Electricity Rules, as
amended by this clause;

which procedures and clauses are all taken to apply.
(3) For the purposes of subclauses (1) and (2)(a), clause 6.16 of the National Electricity Rules is taken to be amended as follows –

(a) clause 6.16(b) is replaced with –

"The AER must publish:

(1) its proposal for the f-factor scheme determination or variation of a distribution determination;

(2) an explanatory statement that sets out the provisions of the F-factor Scheme Order in Council 2016 and the Rules under or for the purposes of which the f-factor scheme determination, or variation of the distribution determination, is required and the reasons for the f-factor scheme determination or variation; and

(3) an invitation for written submissions on the proposal."

(b) the invitation for written submissions referred to in clause 6.16(b)(3) must be sent to –

(i) affected Distribution Network Service Providers;

(ii) the Minister; and

(iii) the relevant entities;

(c) the references to ‘final decision’ in clauses 6.16(e), 6.16(f) and 6.16(g) are to be read as references to an f-factor scheme determination or a decision to vary a distribution determination as the case may be; and

(d) all further amendments necessary or consequential on the amendments in paragraphs (a) to (c) of this subclause are made.

(4) Subclause (3)(a) does not limit the documents or information that the AER may publish.

(5) Subclause (3)(b) does not limit who the AER may invite submissions from or consult with.

(6) For the purposes of subclause (2)(b), clauses 6.8 to 6.11 and clause 6.12.2(a) of the National Electricity Rules are taken to be amended as follows –

(a) all references to ‘distribution determination’ in clauses 6.8 to 6.11 of the National Electricity Rules are to be read as a reference to an f-factor scheme determination;

(b) the framework and approach paper must set out the AER’s likely approach (together with its reasons for that approach) to an f-factor scheme determination;

(c) clauses 6.8.1(b) and (g) do not apply;

(d) clause 6.8.1A does not apply;

(e) clause 6.8.2(a) is replaced with –

‘(a) A Distribution Network Service Provider must, at the time required to do so under paragraph (b), submit a regulatory proposal to the AER with respect to an f-factor scheme which proposal must comply with the F-factor Scheme Order in Council 2016’;

(f) clauses 6.8.2(c)(1) to (5) and (7) do not apply;

(g) clauses 6.8.2(d1) and (d2) do not apply;

(h) all references to ‘proposed tariff structure statement’ and ‘separate tariff structure statement’ in clause 6.8.2 are deleted;

(i) the reference to ‘the Rules’ in rule 6.9.1(a) and the second reference to ‘the Rules’ in clause 6.9.3(a) are to be read as references to this Order;

(j) clause 6.9.1(a)(2) is deleted;
(k) all references to 'proposed tariff structure statement' in clauses 6.9.1 and 6.9.2 are deleted;
(l) clauses 6.9.3(a)(2) and (4) are deleted;
(m) all references to 'proposed tariff structure statement' in clause 6.9.3 are deleted;
(n) references in clauses 6.10.2(a)(3) and 6.11.2(3) to the inclusion of the constituent decisions are deleted;
(o) all references to 'proposed tariff structure statement' in clauses 6.10 and 6.11 are deleted;
(p) clause 6.12.2(a)(2)(i) is deleted; and
(q) all further amendments necessary or consequential on the amendments in paragraphs (a) to (p) of this subclause are made.

Dated 20 December 2016

Responsible Minister:
HON LILY D’AMBROSIO MP
Minister for Energy, Environment and Climate Change

ANDREW ROBINSON
Clerk of the Executive Council