

Attachment: ActewAGL Distribution's responses to AER's proposed national guidelines, schemes and models

Service Target Performance Incentive Scheme

The proposed national Service Target Performance Incentive Scheme (STPIS) includes considerable detail on the proposed service standard performance arrangements to apply to distribution businesses.

The ACT transitional arrangements for the 2009-14 regulatory period mean that the incentive regime under the national STPIS will not apply to ActewAGL Distribution until 1 July 2014.¹ Information gathering arrangements under the national STPIS will apply in the 2009-14 regulatory period.² ActewAGL Distribution is therefore commenting on the proposed STPIS both with reference to its limited application in the 2009-14 regulatory period, and its broader application post 1 July 2014.

Data Collection

The Explanatory Statement that accompanied the proposed national STPIS states:

...the AER will undertake data collection and analysis of service performance in the Australian Capital Territory (ACT)...over the 2009-14 period, and the approach will be based on the national STPIS. The AER will commence data collection from DNSPs in NSW and ACT as soon as is practical.³

Details of the data collection requirements have not yet been determined, however ActewAGL Distribution anticipates that it will need to commit some expenditure to ensure that its systems are capable of collecting the information required, and providing it in the form requested. This is particularly the case as the AER has stated that it would:

...expect a DNSP to have less aggregated data available for a subsequent regulatory control period where a 'soft-start' (e.g. through average network level targets) has been applied initially.⁴

¹ Australian Energy Regulator, *Service Target Performance Incentive Arrangements for the ACT and NSW 2009 Distribution Determinations: Final Decision*, February 2008, p 9.

² Australian Energy Regulator, *Proposed Electricity distribution network service providers service target performance incentive scheme: Explanatory Statement and Discussion Paper*, April 2008, p 1.

³ AER Proposed National STPIS Explanatory Statement, April 2008, p 1.

⁴ AER Proposed National STPIS Explanatory Statement, April 2008, p 28.

The AER notes that the proposed scheme is intended to provide sufficient clarity and certainty so that distribution businesses can be reasonably expected to start taking the necessary action to comply with the scheme.⁵

Given the timing of the development of this scheme in relation to the due date for submission of ActewAGL Distribution's regulatory proposal with the AER (2 June 2008), some issues arise regarding the mechanism to recover costs associated with the information requirements for the new national STPIS. This issue was acknowledged by AER officials at the stakeholder information session held by the AER on the proposed national guidelines on 23 April 2008.

ActewAGL Distribution expects that this issue will be addressed through the AER regulatory decision-making process, but records the issue here for completeness.

Planned and Unplanned SAIDI

The proposed national STPIS includes incentives around SAIDI with both planned and unplanned SAIDI considered as a single measure. The AER's reasons for this position are that:

- Distribution businesses should have an incentive to manage both types of outages, given that customers can be inconvenienced by both types of outages; and
- Planned interruptions only make up a small percentage of interruptions and therefore their inclusion would not have a big impact on the measure overall.⁶

The AER notes in the Explanatory Statement that several stakeholders considered that planned network outages should be excluded from the scheme. The main stakeholder reasons for excluding planned SAIDI from the incentive scheme were that:

- The inclusion of planned SAIDI created perverse incentives for network maintenance; and
- Safety considerations around implicit incentives for live line work.

These reasons informed the Victorian Essential Service Commission decision in 2005 to remove unplanned SAIDI from its incentive scheme. Specifically, the ESC concluded that:

Given the concerns raised that an incentive on planned SAIDI may create a tension with safe work practices and evidence that customers value a reduction in unplanned interruptions rather than planned interruptions (KPMG 2003), the Commission's decision is that planned SAIDI should not be included in the S-factor scheme but that unplanned SAIDI should be included as a separate measure.⁷

⁵ AER Proposed National STPIS Explanatory Statement, April 2008, p 28.

⁶ AER Proposed National STPIS Explanatory Statement, April 2008, p 17.

⁷ Essential Service Commission of Victoria, *Electricity Distribution Price Review 2006-10: Final Decision Volume 1: Statement of Purpose and Reasons* October 2005, p 81

The AER Explanatory Statement did not address the safety issues raised by stakeholders associated with creating incentives around planned SAIDI. ActewAGL Distribution considers that these issues are considerable, and are likely to have a greater impact on ActewAGL Distribution given that planned outages make up more than 50 per cent of ActewAGL Distribution's overall SAIDI performance.⁸ This means that the AER's conclusion outlined above that planned SAIDI, as a small proportion of overall SAIDI would only have a small impact on the overall measures, is not the case for ActewAGL Distribution.

In addition, outcomes from ActewAGL Distribution's 2003 willingness to pay study supported the results of the 2003 KPMG study, which showed that customers are far less concerned with planned outages (compared to unplanned outages), as long as they were given sufficient notice of that outage (2-7 days prior notice). This outcome supports the case that, if planned SAIDI is included as a measure as part of the national STPIS, it should have a different incentive rate than unplanned SAIDI.

It is ActewAGL Distribution's position that incentives and penalties should not be attached to planned SAIDI under the national STPIS. Reporting obligations against planned SAIDI are appropriate and reflect current practice in the ACT.

If incentives and penalties are to apply, the incentive rate for planned SAIDI should be less than that for unplanned SAIDI, reflecting customer preferences, as well as the safety issues surrounding the use of strong incentives for this measure. This approach would also go some way in removing the disproportionate impact that a combined SAIDI measure and incentive regime would have on ActewAGL Distribution, compared with other distributors.

Roll Forward Model

- ActewAGL Distribution welcomes the AER's intention to consider the use of existing jurisdictional models in the context of each individual DNSP.
- ActewAGL Distribution supports the recognition of capital expenditure on a full as-incurred basis.

⁸ The historically high proportion of planned SAIDI in ActewAGL Distribution's overall SAIDI performance is largely related to the ACT's backyard reticulation, which makes access in response to unplanned outages very difficult and means that ActewAGL undertakes a high proportion of planned maintenance to unplanned.