



Queensland
Government

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Our Ref: MC3324

Department of
Mines and Energy

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
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Dear Mr Pattas

Thank you for your letter of 9 February 2009 addressed to Pat Bell, Director of Policy, seeking the views of the Department of Employment, Economic Development and Innovation (DEEDI - Formerly the Department of Mines and Energy) on the proposed amendments to the service target performance incentive scheme (STPIS) for electricity distribution network service providers (DNSP's). As this matter now falls within the responsibilities of the Energy Sector Monitoring division, your correspondence has been forwarded to this office for a direct reply. I apologise for the delay in responding to your letter.

I note that the timing of the STPIS review coincides with a number of other changes to regulatory arrangements that are all occurring at a point in time when the Regulatory Proposals of ENERGEX Limited (ENERGEX) and Ergon Energy Corporation Limited (Ergon Energy) would be significantly advanced (due to the Australian Energy Regulator (AER) this coming May). For example, the extension of time being sought by the AER from the Australian Energy Market Commission for completion of the Weighted Average Cost of Capital review effectively shifts the deadline from 31 March 2009 to 1 May 2009. This would be expected to cause issues for ENERGEX and Ergon Energy as the changed timing presents little opportunity for any refinements to their Regulatory Proposals prior to submission.

Nonetheless, the Department acknowledges that the revised version of the STPIS being subjected to consultation presents a number of improvements including the change to revenue at risk and the adoption of more standard definitions and calculations.

DEEDI understands that the revised version of the STPIS limits the potential financial penalty or reward in any one year, and applying to each year in isolation. This differs from the original scheme which had a lower annual impact but had the potential for a five year cumulative outcome. DEEDI supports the proposed refined approach.

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The wording of the scheme revision is considered problematic given it has the potential effect of requiring the distribution entities (ENERGEX and Ergon Energy) to prepare and submit their Regulatory Proposals using either version of the scheme (i.e. the original or revised). Finalised Regulatory Submissions by the distribution entities rely upon a final decision by the AER in relation to the revised STPIS following consideration of responses to this consultation process. Addressing this current uncertainty involves significant additional work for the distribution entities at a very late stage in the development of their Regulatory Proposals.

DEEDI is also concerned that the increased value of customer reliability is based on a somewhat limited data set. It is conceivable that groups representing customers required to fund the scheme to the value determined by the AER may not be aware of the revised values. The value of reliability and the cost that customers are willing to pay for that reliability is an issue the distribution entities have raised previously with the AER, and as part of the Queensland Competition Authority's Minimum Service Standard (MSS) review.

We would suggest that the STPIS should not conflict with Queensland's Minimum Service Standards (MSS) currently applicable to the distribution entities. We note that under the AER's proposal for refinements to STPIS, the distribution entities will be required to report against a Momentary Average Interruption Frequency Index (MAIFI) metric. DEEDI in conjunction with the distribution entities has previously considered the inclusion of a MAIFI metric as part of MSS. However, issues surrounding the establishment and auditing of an accurate count of MAIFI concluded there was little benefit in introducing this metric.

We understand that ENERGEX and Ergon Energy are currently reviewing the proposed amendments to the STPIS with a view to providing formal written submissions to the AER.

Thank you for bringing this matter to my attention and I trust this information is of assistance. Should you have any further enquiries, please contact Ms Ilona Cenefels, Acting Principal Policy Officer, GOC and Technical Services on telephone (07) 3239 0044.

Yours sincerely



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Executive Director
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