

ETSA Utilities' submission:

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Electricity Distribution Network Service Providers  
Service Target Performance Incentive Scheme  
Issues Paper

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## Executive Summary

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- n ETSA Utilities supports the establishment of a common national framework for a service performance target incentive scheme (STPIS), but recognises that the responsibility for establishing service levels will remain with state jurisdictions. This national approach is consistent with the intent underlying the establishment of the AER.
  - n The national framework should be implemented over the next 5 to 10 years, noting that the transitional issues will be substantial and will require close collaboration between the AER, DNSPs and regional regulators.
  - n The current South Australian STPIS comprises all three types of service incentives discussed in the AER's paper, being:
    - o Public reporting against average performance targets;
    - o A Guaranteed Service Level (GSL) Scheme; and
    - o A financial incentive (S-factor) scheme.
- This framework has been largely effective in driving ETSA Utilities to maintain or improve service levels.
- n Public reporting has ensured that ETSA Utilities' overall performance is open to public scrutiny and the organisation must be able to explain any variation from targets.
  - n The GSL scheme has been effective in driving ETSA Utilities to improve the level of service provided to the worst served customers where economic.
  - n The financial incentive scheme, although sound in concept, has not been effective in driving business change owing to a combination of complexity, data quality issues and the high impact of weather on the performance measure.
  - n ETSA Utilities believes that the significant learnings obtained in the South Australian context can be applied to a national framework. In particular, ETSA Utilities are of the view that the South Australian S-factor scheme in its current form is ineffective. For a scheme to be effective, it must meet the following criteria:
    - o Reflects aspects of service that are received and valued by all customers (eg. reliability and telephone response);
    - o Targets are easy to measure (ie. measured at minimal cost);
    - o Is simple to communicate, understand and manage within the DNSP's organisation;
    - o Accurate baseline performance can be established;
    - o The measured performance reflects the DNSP's efforts (ie. does not reward or penalise the DNSP for events outside of their control, for example, short-term weather effects); and
    - o The amount of the incentive reflects customers' willingness to pay.
  - n In addition, ETSA Utilities believes that appropriate caps and/or exclusions for both S-factor and GSL schemes should apply to limit the excessive risk exposure of the DNSP under exceptional circumstances.

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## 1. Objectives in establishing a service target performance incentive scheme

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ETSA Utilities considers that the service target performance incentive scheme (STPIS) should not be considered in isolation but in the context of the service standard framework (SSF). The SSF is the cornerstone (as stated by ESCoSA) of the regulatory bargain as struck in the 2005 Determination. Each of the components forms an important part of the framework which consists of:

- o Average service standards;
- o Service performance incentive scheme; and
- o Guaranteed Service Levels (GSLs).

ETSA Utilities' understanding is that under the proposed national framework, the components of the SSF will not be established solely by one body. The jurisdictional regulator will establish the service standards, the AER the STPIS and there is, as yet, no clear direction on who will establish any GSL scheme.

ETSA Utilities supports the current SSF that operates within SA and believes that it has been largely effective in driving ETSA Utilities to maintain or improve service levels, with the only exception being the operation of the Service Incentive (SI) scheme.

The current SI Scheme was designed and established with limited data, and due to the high impact of weather variation, rewards and penalties need not reflect the distributor's efforts. Further, the scheme's complexity has made it difficult for ETSA Utilities' staff to understand and has therefore been a poor driver of performance improvement.

This issue will be taken up further in section 2.3 of this submission.

The AER has sought views on whether it is feasible and appropriate to establish a common national approach, what the key elements of that approach maybe and any obstacles in achieving such an approach.

ETSA Utilities supports the establishment of an STPIS whereby a common approach is adopted for all jurisdictions within a national framework, but recognises that jurisdictional regulators are responsible for setting of service standards.

We would envisage the key elements to be similar to those currently applying to South Australia, but with current weaknesses addressed, based on experience gained in SA and interstate.

As there are not consistent schemes currently operating in all jurisdictions, there will be transition issues in moving distributors to a national approach. The difficulties in transitioning distributors to a national approach should not be under-estimated. ETSA Utilities considers that the AER should move all distributors to the national framework over the next 5 to 10 years.

The primary obstacles to achieving an effective national approach are likely to be:

- o the accuracy of the data necessary for the operation of a such schemes;
- o sufficient data to establish a baseline;
- o the establishment of incentive rates based on customer willingness to pay; and

- o jurisdictional agreement to a single set of service performance criteria.

Table 1 below summarises ETSA Utilities’ high level views on the future role and application of the various components of the Service Standard Framework (SSF) within the South Australian context. These items are discussed in more detail within the remainder of this submission.

Table 1 - Service Standard Framework components

SSF component	Operation	Use
Minimum service standards /average service standards – established by the jurisdiction	Distributor to comply with standards on a “best endeavours” basis. Performance reporting to regulator(s).	Used as a basis of overall performance measurement and comparison for licence compliance purposes.
S-factor (currently SI) scheme – established by the AER	Performance measures assessed with reference to base-line and performance bands.	Encourages continuous improvement in the performance of services provided to all customers.
Guaranteed Service Levels – AER with jurisdictional and distributor input	Payment to individual customers in recognition of the distributor’s failure to meet a guaranteed service level.	Encourage improved performance in relation to individual customer issues, particularly for worst-served customers, and implementation of long-term remedies where economic to do so.

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## 2. Types of service incentive scheme

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### 2.1. Public reporting schemes

The AER has sought views as to whether it should require distributors to report on key aspects of their service performance for public reporting purposes.

Public reporting of service performance plays an important role in informing customers and focusing distributors' performance even where reported indicators are not subject to financial rewards and/or penalties within an S-factor or GSL scheme.

ETSA Utilities supports public reporting against a common set of performance indicators. It would be expected that performance indicators included in an S-factor scheme would have a relatively high value to customers and should therefore be included in any public reporting regime. However, any additional reporting requirements should be administratively simple, not impose significant costs on distributors and take into account the value that customers will place on the information.

In SA, ETSA Utilities also has a legal obligation contained within *The Electricity Act* to provide reports to the Technical Regulator on its service and safety performance. Previously, performance reports were provided to both the Technical Regulator and the Economic Regulator. The reporting contained different information and was reported at different intervals. This reporting has since been consolidated to minimise the costs and as a result both regulators now receive one report at the same time.

We encourage the AER, in consultation with jurisdictional regulators, to follow this example to reduce reporting and compliance costs. In addition, the AER needs to consider the additional burden on the DNSP if multiple regulators conduct their own assessment of performance including the seeking of additional information.

### 2.2. GSL schemes

The AER has sought comments on whether it should develop a national GSL scheme and what, if any, are the implementation or operational issues that may arise from such a proposal.

Under the SSF, GSLs provide both an incentive for the DNSP to improve performance and some payment to customers in recognition of the low level of service. We consider that GSLs have been quite effective in driving improved performance within ETSA Utilities, particularly with respect to worst served customers.

Under a national framework, we consider that the AER should establish the total value of the GSL payments as they need to balance the incentive with the cost to improve performance, and its interaction with the S-factor scheme. The jurisdiction and/or distributor, however, would be best placed to determine an acceptable level of payments to customers and the appropriate thresholds.

The total amount of compensation could be determined by the AER, in consultation with the jurisdiction, by establishing the percentage of customers who should receive compensation and the amount of the distributor's annual revenue available to pay customers. ESCoSA in developing the GSL scheme for the 2005 Determination considered that the GSL payments should be made to about 1% of customers.

The DNSP, in consultation with the local jurisdiction, could propose the payments and thresholds to comply with the AER's framework.

Using such a process, it would be possible for the AER to develop a national framework without setting specific payments and thresholds. Considerations in developing such a framework would include:

- The number of customers that would be eligible for a GSL payment (based on historic performance);
- The cost of customer payments to be included in the distributor's revenue requirement;
- The types of interruptions included. For example, should planned, unplanned, sustained or momentary interruptions be included?
- The definition of an interruption;
- How excluded events should be defined and handled (ie. no customer payments, or additional funding provided to make payments to customers);
- Whether specific GSL payments should be capped; and
- Whether incentives should be applied where the distributor is late for a customer appointment, is late in connecting or reconnection a customer or does not repair faulty public lights within a specified time frame after they are reported.

ETSA Utilities considers that planned and momentary interruptions should be excluded from the GSL scheme as is currently the case in SA.

The AER should fund, via the distributor's revenue requirement, the expected cost of the GSL payments based on historic performance. The distributor would be rewarded or penalised if the performance improved or declined.

Historic performance generally does not include one off type events where the distributor can be subject to significant financial risk. This is especially true for radial type distribution networks like in SA where individual events can lead to large numbers of customers being without supply until the distribution network can be repaired.

To deal with these circumstances, ETSA Utilities proposes that a cap is applied to GSL payments. Under such a scheme, GSL payments would still be made to all eligible customers, but ETSA Utilities would only be exposed to a maximum of (for example) 150% of the GSL allowance in payments. Any payments above the cap would be passed through to all customers in the following year by a higher revenue allowance. This is the most cost effective way to manage the risk of unusual events, rather than trying to include them in the GSL forecast.

Issues associated with implementing a national GSL scheme would include:

- Availability of accurate of data to enable the number of GSL payments to be forecast;
- Determining what is an appropriate GSL payment, for a range of customers, across jurisdictions;
- Estimating changes to payments over time (for example, the impact of climate change);
- Links to the local jurisdictional components of the SSF;
- Funding required by the DNSP to report and manage the GSL scheme; and

- How to cater for unusual one-off events (eg. events that occur every 5 plus years).

## 2.3. Financial incentive (S-factor) schemes

The AER has also sought views as to the overall design that should apply to any national S-factor scheme.

S-factor schemes have been developed and applied to electricity distribution businesses by the Victorian Essential Services Commission (ESC), the Essential Services Commission of South Australia (ESCOSA) and the Office of the Tasmanian Energy Regulator (OTTER). While recognising that there are significant differences in the schemes adopted by each jurisdictional regulator, ETSA Utilities believes any national scheme should be based on existing schemes and take account of experience with these to date.

The S-factor schemes differ by jurisdiction in regard to:

- How performance is measured;
- The type of service measures included;
- Whether service measures include all customers performance or only those that are worst served;
- Whether service measures are applied on a state-wide basis or are disaggregated by region;
- The incentive rate applied to the measure of service performance;
- The symmetry of the scheme and the extent to which the distributor is able to smooth the impact of penalties or rewards for the purpose of setting tariffs; and
- Whether exclusions are allowed and the types of exclusions.

### 2.3.1. Form of the S-factor scheme

ETSA Utilities considers that to be effective, a financial incentive (S-factor) scheme must meet the following criteria:

- Reflects aspects of service that are received and valued by all customers (eg. reliability and telephone response);
- Targets are easy to measure (ie. measured at minimal cost);
- Is simple to communicate, understand and manage within the DNSP's organisation;
- Accurate baseline performance can be established;
- The measured performance reflects the DNSP's efforts (ie. does not reward or penalise the DNSP for events outside of their control, for example, short-term weather effects); and
- The amount of the incentive reflects the customers' willingness to pay.

The current South Australian financial incentive scheme, the SI scheme, targets the "worst served" 15% of customers. These customers are determined by including feeders that exceed specific thresholds in two consecutive calendar years.



The scheme was designed using three years worth of data (ie. two measured performances) that appeared to indicate that the scheme was not significantly affected by weather. The baseline performance was established using three measured performances (2001/02, 2002/03 and 2003/04).

Unfortunately, this limited amount of data established an incorrect baseline as 2004 was an anomalously high performing year. As a result ETSA Utilities has been unfairly penalised by the scheme due to apparent degraded performance.

The SI Scheme has also proven difficult to manage as the target feeders are highly dynamic (due to weather influences) and are not known until the end of the measurement year. In general, it takes at least 12 months to accurately determine why a feeder is performing poorly, plan the corrective action, implement the action(s) and for the results to be reflected in the performance measure.

Due to the dynamic nature of the current scheme and weather influences, feeders are often included and excluded from the scheme without any intervention by ETSA Utilities. Further, the organisation has had difficulty in explaining the specific workings of the scheme to employees due to the complexity of its application.

The combined impact of all of these factors has been that the scheme has been ineffective in driving improved performance.

Recent work by ESCoSA has also indicated that more than 85% of customers are satisfied with their current level of reliability performance, and even of those that were somewhat dissatisfied, the willingness to pay for improvements to their reliability was very low. Given this, and the difficulty in overcoming the significant issues with the current SI scheme, ETSA Utilities believes that an effective S-scheme will not be able to be put into place for 2010 – 2015.

ETSA Utilities notes that such an approach would be consistent with that taken by OTTER, who, until recently, also administered an S-factor scheme through the application of state-wide SAIDI and SAIFI targets. OTTER has abandoned this scheme, noting that the relevance of setting state-wide performance targets was diminished. OTTER was primarily concerned with the lack of consistent historical data on which to establish a starting point for the scheme, the problems it faced in setting targets due to the difficulty of forecasting the impact of future reliability improvement programs, the risk of incorrectly matching performance targets to capital expenditure forecasts and the volatility in recorded network performance due to variability of weather conditions.<sup>1</sup> Given these issues, OTTER removed the financial incentives attached to the SAIDI and SAIFI targets and modified the existing GSL scheme in order to provide a more targeted approach to reliability issues for different categories of communities across the state.

### **2.3.2. Symmetry of the scheme**

ETSA Utilities believes that the risks associated with S-factor (and GSL) schemes are intrinsically asymmetrical owing to the impact of uncontrollable one-off events.

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<sup>1</sup> OTTER, *2007 Electricity Pricing Investigation – Final Report*, p.227.

The extent of asymmetry is dependent upon the effectiveness of mechanisms such as exclusions and caps to remove or reduce the impact of these events, as discussed elsewhere in this submission.

### **2.3.3. Number of measures to be included**

A number of reliability and customer service measures can be designed that meet the six criteria described earlier.

ETSA Utilities considers that the number of measures should be minimised so as not to dilute the incentives provided and target only those services that customers highly value.

### **2.3.4. Other issues**

Another issue that the AER should consider in the design of any S-factor scheme is the inclusion of a measure that assists in reducing the volatility of network tariffs that result from changes in the S-factor from year to year. Measures such as the S-bank that is currently applied under the Victorian scheme are useful for smoothing network tariffs and managing network tariff volatility outside of rebalancing constraints.

### **2.3.5. Interaction between GSL schemes and S-factor schemes**

The AER has sought views as to the how the S-factor and GSL schemes interact together.

The S-factor scheme and the GSL scheme should be designed so that there is minimal overlap of the schemes in the customers that are targeted.

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## 3. Types of Service Performance Measures in S-factor Schemes

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### 3.1. Reliability indicators

The AER is seeking views as to which reliability measures should be included in a national S-factor scheme.

The reliability measures adopted by each jurisdictional regulator differ and have changed over time. The reliability measures that are either currently or have previously been adopted include:

- SAIFI (systems average interruption frequency index) – an average of the number of times the average connected customer loses supply in any one year;
- SAIDI (systems average interruption duration index) – an average of the cumulative time that the average connected customer is without an electricity supply in any one year;
- CAIDI (customer average interruption duration index) – a measure of the average duration of all interruptions experienced by individual connected customers; and
- MAIFI (momentary average interruption frequency index) – a measure of the number of times the average connected customer experiences a momentary supply interruption in any one year.

These measures can be disaggregated by network type and in some cases between planned and unplanned interruptions.

ETSA Utilities is aware that Victoria is the only state which currently includes MAIFI in its S-factor scheme. ETSA Utilities currently reports on MAIFI from a random sampling of its feeders. The accuracy of this data would not be suitable for an “S-factor” type scheme. We consider that the majority of distributors would not have sufficient data or processes in place to effectively report on MAIFI, and it would therefore be difficult for it to be included in an S-factor regime in the short term.

As stated previously ETSA Utilities considers that the number of measures should be minimised. On this basis, it is ETSA Utilities’ view that unplanned SAIDI should be used as the single reliability measure for a national S-factor scheme. The distributor can then choose the balance of improvements made in unplanned SAIFI or unplanned CAIDI being the two components of SAIDI.

ETSA Utilities considers that SAIDI contributed by planned outages should be excluded by the scheme. The exclusion of planned SAIDI, is supported by the SA customer survey in 2002, where customers placed a higher value on a reduction in unplanned interruptions compared to a reduction in planned interruptions. It is understandable that customer’s are not as inconvenienced by planned interruptions as unplanned interruptions as they receive notification of planned interruptions. Therefore, either planned interruptions should be excluded or if included, have a lower incentive rate applied.

The inclusion of planned interruptions in an S-factor scheme can also create an incentive to defer maintenance on the distribution network.

### 3.2. Quality of supply indicators

The AER is seeking views as to which quality of supply measures should be included in a national S-factor scheme.

Quality of supply indicators such as those relating to voltage (dips, swells, spikes and low voltage), frequency variation, voltage waveform and interference have not been adopted by any jurisdictional regulator in Australia for inclusion in S-factor schemes. As noted by the AER, there are no commonly used indicators for measuring the average quality of supply to customers. Indirect measures such as customer complaints are imperfect and are not sufficiently robust for use in an S-factor scheme. While more accurate measures can be derived from monitoring equipment installed at zone substations and at the end of distribution feeders, such equipment only covers a limited number of supply areas. The information obtained from such equipment is therefore far from being complete.

While there are not any quality of supply measures that meet the criteria for inclusion in a national S-factor scheme as set out in section 3.3.3, it is accepted that quality of supply is an important aspect of the service provided by a distributor. ETSA Utilities is willing to work with the AER to assess how quality of supply could be more accurately measured and would support the inclusion of quality indicators in a future S-factor scheme if:

- n Total or average performance could be accurately measured;
- n It could be shown that the quality of supply issue was:
  - o The fault of the distributor and was not in any way caused by the actions of customers; and
  - o Reasonably foreseeable and in the control of the distributor; and
- n It could be shown that customers value improvements in the quality of supply and if so, what value they place on each quality measure.

### 3.3. Customer service indicators

The AER is seeking views as to which customer service measures should be included in a national S-factor scheme.

Only one customer service indicator, call centre performance, is included in the S-factor schemes that operate in Victorian and South Australia. The ESC and ESCOSA both measure the proportion of calls answered within 30 seconds and reward (penalise) distributors for performance above (below) a specified level.

Customers, according to the 2002 Customer Survey in SA, value responsiveness to telephone calls. Therefore ESCoSA incorporated into the newly established SI scheme incentives to improve the Call Centre Grade of Service (ie. response to telephone calls), albeit comprising a very small proportion of the overall financial incentive.

The AER has suggested the potential for the inclusion of a range of other customer service indicators, including: quality of telephone call response received; timeliness of response to written enquiries; time to repair a faulty street light; timeliness of customer connections and reconnections; and the number of different types of complaints.

ETSA Utilities considers, as stated previously, that only those services that are received by all customers (eg reliability, telephone response) should be subject to an S-factor

scheme. Services which are received by only a small portion of customers are best left to either public reporting and/or GSL payments which directly compensate those customers that are affected.

ETSA Utilities does not support the inclusion of any additional customer service measures in a national S-factor scheme. The reasons for this are as follows:

- Quality of telephone call responses received – this indicator would be extremely difficult to measure objectively. Monitoring of calls and classification of them by reference to subjective assessment criteria would be both time consuming and costly. Systemic problems with call centre performance are best dealt with via other means;
- Timeliness of response to written enquiries – ETSA Utilities received 3,500 written enquiries in 2006/07 of which we answered 98% within 5 business days. This service is received by less than 1% of our customers and therefore not appropriate for a S-factor scheme. ETSA Utilities reports on this service - an approach that we believe remains appropriate;
- Time to repair a faulty street light – ETSA Utilities considers that the current scheme (ie GSL payment direct to the effected customer) is the best method to drive the distributors behaviour. As a result of this incentive ETSA Utilities repaired 97% of streetlights in the required time during 2006/07;
- Timeliness of customer connections and reconnections – again, as these services are received by a small proportion of customers, a GSL regime is an appropriate incentive as it provides compensation to the affected customer ; and
- Number of different types of complaints – ETSA Utilities receives about 1,800 complaints per year. ETSA Utilities handles these complaints very effectively with only about 120 being referred to the Ombudsman. Even where it is possible to distinguish enquiries from complaints to either the distributor or energy ombudsman, complaints may be related to issues that are either not the fault of the distributor or not within the distributor's control. Currently a reporting regime is in place, and the Ombudsman regularly reviews ETSA Utilities management of complaints. We believe these existing mechanisms provide appropriate incentives.

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## 4. Approaches to setting rewards and penalties in an S-factor scheme

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The AER would like views on possible approaches for setting incentive rates and the feasibility and associated costs and benefits of adopting each approach.

The AER note that incentive rates should ideally be set at a level lower than customers' willingness to pay for service improvements but high enough to influence the behaviour of distributors. The AER identifies a range of methods for determining incentive rates which require estimation of either the marginal cost of making service improvements, the value of lost load or customers' willingness to pay for incremental service improvements.

Under the SA scheme the incentive rates for the reliability and telephone response components for the S-factor scheme were set at the customers' willingness to pay. In Victoria the rates for reliability measures are based the average value that Victorian customers place on reliability (VCR) as determined by a study conducted in 2002, whereas the rates adopted for customer service indicators are based on customers' willingness to pay for service improvements. In both Victoria and South Australia, the weightings for each measure are based on the results of the South Australian willingness to pay study.

Service incentive rates and weightings of measures should ideally be determined on the basis of customers' willingness to pay. Future rates for the service measures could be based on future surveys or use existing data.

It is noted that even where service incentive rates are based on estimates of a customers' willingness to pay, the interaction of the S-factor and efficiency carryover mechanisms (ECM) is such that distributors may be rewarded by an amount less than this. Service improvements can generally only be achieved through additional operating or capital expenditure that on the one hand may be rewarded through the S-factor scheme but on the other, penalised via the ECM. The net effect tends to weaken the incentive to improve performance such that any net increments to a distributor's revenue may be less than customers' willingness to pay.

It would be difficult to establish a national marginal cost to improve as each distributor would be located on a different point of the reliability cost curve. The reliability cost curve is not linear and as the reliability improves, the cost to make an incremental improvements will also increase.

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## 5. Approaches to setting performance targets under an S-factor scheme

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The AER would like views on possible approaches for setting targets in an S-factor scheme.

The AER outlines five methods by which targets may be set for the purpose of assessing service performance, being:

- o The most recent year's result;
- o Average historical performance;
- o Trends extrapolated from past performance;
- o Moving average historical performance; or
- o The use of external benchmarks.

The method used to set performance targets for a distributor in the first year of a new scheme should be case specific and will depend on how the service performance will be measured, the availability of historical data, the variability of performance data over time, prior existence of an S-factor scheme, incentive rates and so on. Where reliable historic data is available and the measured performance is stable, average historical performance would generally be the most appropriate method for setting targets.

On this basis, the setting of performance targets for reliability indicators should only be relevant for the first year of any new scheme, or for the first year for which distributors are subject to the scheme. After the first year targets should be set based on actual performance so as to provide distributors with a continuing incentive to improve performance over time. Targets should only be altered where there is an expectation of improved service performance by the jurisdictional regulator and for which the distributor is appropriately funded via allowable revenues.

As stated earlier in this submission, in the absence of sound baseline performance data, desirably of a 5 year or greater timeframe, an incentive regime should not be implemented as risks to customers and the distributor are unreasonably high and is akin to gambling.

Another issue with establishing targets is the potential impact of climate change on weather patterns as it may mean historical performance of the network may not be reflective of future performance of the network. This could introduce significant risk to the DNSP owing to incorrectly established baseline performance.

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## 6. Allowing for risks

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The AER would like views on mechanisms to deal with additional risk introduced by an S-factor type scheme and whether it is appropriate for such risks to be wholly borne by distributors and/or customers.

The AER notes that the introduction of an S-factor scheme can introduce additional risk to distributors, primarily as a result of revenue volatility, and considers whether mechanisms to mitigate such risks such as deadbands, collars and overall limits should be included in a national scheme.

ETSA Utilities considers that the above measures are appropriate to limit risk to customers and the distributor where the performance measure used in the S-factor scheme is 100% within the control of the DNSP. This is not the case for reliability where the performance varies from year to year depending on the weather.

Mechanisms need to be developed to mitigate the financial risks to distributors for normal variations in performance and for one-off type events, for example, those events that occur at intervals greater than 5 years.

A mechanism to mitigate the impact of variability in S-factors, without impacting incentives for service performance, is to introduce a smoothing mechanism that would allow distributors to defer part or all of the S-factor from one year to the next (ie. an S-bank). Such a mechanism provides distributors with flexibility to smooth the impact of normal variations in service performance such as that which may be attributable to weather conditions. An S-bank mechanism has been introduced in Victoria where the ESC found that volatility is substantially reduced when the S-factor is averaged over two years rather than one.<sup>2</sup>

A further method to mitigate risk is to allow for exclusions whereby an event is excluded when beyond the control of the distributor, for example transmission outages, generation outages (including embedded generation) and severe weather events. Such issues are dealt with in section 7.

GSL risks can be managed by applying the capped arrangement as explained in section 2.2.

In summary, ETSA considers that the additional risks introduced by S-factor and GSL schemes should be borne by both customers and distributors, but with the risks capped for the distributor. Such an approach for exceptional events will be more cost effective than attempting to make an allowance in forecast costs.

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<sup>2</sup> ESC, October 2005, *Electricity Distribution Price Review 2006 – 2010: Final Decision Volume 1 – Statement of Purpose and Reason*, p.92.



## 7. Allowing for exclusions

### 7.1. Qualitative and quantitative measures

ETSA Utilities supports the use of quantitative measures for setting criteria for exclusions for the S-factor scheme. The use of quantitative criteria such as IEEE 1366-2003 is administratively simple and reduces the uncertainty that is created as a result of the regulator having discretion over the definition of widespread, rare or unforeseeable events. ETSA Utilities also supports the exclusion of events that are caused by upstream faults or other events where a distributor is required to interrupt supply or where considerable delay is caused through lack of access to restore supply (eg. bushfires, flooding).

The exclusion criteria applying to a distributor should ensure that the measured performance once exclusions are removed provides a stable measure of the distributor’s performance. This may require different distributors to have different exclusion criteria.

Reliability has, is, and is likely to be, a major component of the existing and future S-factor type schemes. This is because all customers value a reliable electricity supply. However, reliability performance is significantly influenced by events beyond the control of the distributor like weather. In SA, the main cause of variability in reliability performance, excluding TNSP and generation outages, is due to weather events. Table 2 below shows the significant variability due to weather and the importance of choosing the correct exclusion criteria.

Table 2 - Reliability variability due to weather (State SAIDI)

Calendar Yr	Overall Result	Normalised (SCoNRRR)	Normalised (IEEE)
2004	143	140	143
2005	210	136	185

Under an S-factor type scheme ETSA Utilities would have been rewarded slightly using the SCoNRRR exclusion criteria and heavily penalised if the IEEE:1366-2003 exclusion criteria applied (ie. major event days). It is therefore extremely important to match the exclusion criteria to the DNSP.

It should be noted that ETSA Utilities has only had one major event day as defined by the IEEE:1366-2003 over the last 7 years. Whereas the IEEE:1366-2003 standard states that the 2.5β criteria was chosen so that on average 2.3 days were excluded per year. Using the SCoNRRR criteria, ETSA Utilities would have excluded 4.7 days per year.

ETSA Utilities considers that a one size fits all exclusion methodology for determining major event days is not appropriate and the exclusion criteria need to be tailored to match the DNSP and the effects that events outside their control have on their reported performance.

Both the IEEE and SCoNRRR exclusions are based on SAIDI as the qualifier. ETSA Utilities considers that this is the appropriate measure to base exclusions, unlike SAIFI in Victoria. The IEEE used SAIDI because it provides a better measure of the impacts on the operational performance of the distributor and we concur with this assessment.

However, exclusions should also be granted for events outside the distributor's control that impact on a smaller number of customers for a significant length of time.

In the case of excluded events, it is ETSA Utilities' view that GSL payments should still be made to customers, however caps should be applicable, as discussed in section 2.2.

## **7.2. Options to limit the contribution of an excludable event**

The impact of excluded events should be removed from the incentive scheme. This is generally the simplest approach.

In SA, the number of SCoNRRR excluded events can vary from 1 per calendar year to 7 per calendar year. If an average contribution were used for these events, our reliability performance would still vary considerably due to weather.

ETSA Utilities considers that the appropriate mechanism to handle excluded events is for the distributor to be subject to public reporting of such events. That is, the distributor is required to prepare a review report for public scrutiny detailing each event for the past year.

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## 8. Transitional issues for jurisdictions

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ETSA Utilities currently measures and reports reliability performance on a geographic basis to verify compliance with reliability obligations. We also report on the SCONRRR feeder basis (ie. CBD, urban, rural short and rural long). We are aware that the majority of distributors report on the SCONRRR feeder classification basis.

ETSA Utilities would expect that a future Service Standard Framework for reliability would be based around reporting on the SCONRRR feeder classification basis.

ETSA Utilities does not have sufficient robust data with regard to quality of service indicators, to enable the inclusion of these indicators in a scheme currently or in the near future. As noted earlier, the inclusion of any quality of service indicators requires an appropriate lead time to ensure that performance data on which initial targets will be based is sufficiently robust.

ETSA Utilities is currently using manual reliability reporting procedures (excluding LV interruptions) to measure its compliance with its reliability obligations. This manual data was used to determine the reliability service levels for the current period (2005 to 2010). However, we have implemented an Outage Management System (OMS) that is intended to be used for reliability reporting (including LV interruptions) post 1 July 2010. ETSA Utilities will be working with ESCoSA to transition the service standard targets from those established under the manual procedures to the OMS reporting regime.

The OMS was only fully operational from 1 July 2005, which means that there will not be sufficient accurate data to establish targets for an S-factor scheme, for the 2010 Determination period. As advised earlier, ETSA Utilities considers that the only suitable incentive mechanism that can be applied to reliability measures for the 2010 to 2015 period is via public reporting.

ETSA Utilities appreciates that close collaboration will be required in South Australia between the AER, ESCoSA and the distributor to deal with such transitional issues.