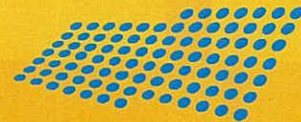


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30 October 2009

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

By email to: aer inquiry@aer.gov.au

Dear Mr Pattas,

EnergyAustralia submission on AER's proposed amendments to STPIS

EnergyAustralia appreciates the opportunity to comment on the AER's proposed amendments to the Service Target Performance Incentive Scheme (STPIS), published by the AER in September 2009. We support amendments which seek to accommodate the unique circumstances of individual businesses subject to the national scheme. We therefore endorse the AER's amendments to introduce flexibility around the calculation of the major event day and the timing of performance reporting.

In respect of other amendments, EnergyAustralia does not support provisions which limit a DNSP's ability to propose how the general STPIS should apply to it during a particular regulatory control period. We also do not support an amendment which precludes the AER from setting 'declining performance' targets across a regulatory period.

Major event day amendments

The AER has proposed amendments to the calculation of the major event day. EnergyAustralia supports the AER's amendment to allow distributors to propose a method to transform daily SAIDI data to a normal distribution. The amendment fills a gap in the current STPIS and provides sufficient flexibility for a distributor to propose (and the AER to assess) an appropriate method to transform the data.

EnergyAustralia considers the AER should make a further amendment to the calculation of the major event day. The scheme would be more clear if Step 1 of Appendix D clarified that the dataset for unplanned SAIDI should exclude the events identified in Clause 3.3(a) of the scheme (for example load shedding due to generation shortfall). This would ensure that the data for calculating the major event day is not contaminated by other excluded events, such that it would inappropriately skew the boundary of the major event day.

Timing of performance measurement amendments

EnergyAustralia supports the AER's amendments to clarify the timing of performance reporting. The AER's drafting change to remove the reference to 'financial year' is a flexible and simple solution to the issues faced by Victorian distributors, whose regulatory determinations are made on a calendar year basis.

Amendments to vary the application of the scheme

EnergyAustralia is concerned with the existing drafting of and amendments to clause 2.2(a) of the proposed scheme as it would operate to restrict a DNSP's right under the Rules to propose how a scheme will apply to it during a regulatory control period. Once a scheme is put in place by the AER under clause 6.6.2, the Rules provide for the DNSP to propose how the service target performance incentive scheme should apply to it for the regulatory control period (see Schedule 6.1.3(4) of the Rules). The AER must then make a decision in relation to that proposal under clause 6.12.1(9) after having given an indication of its likely approach in its framework and approach paper.

It is clear therefore that the application of all aspects of the scheme are open for proposal from the DNSP and for determination at the time of the regulatory proposal. Clause 2.2 (a) appears to seek to restrict the matters which may be the subject of a DNSP's proposal to those matters which are specifically mentioned in the scheme as being capable of varied application. This may have been inadvertent but is not consistent with the Rules.

EnergyAustralia has similar concerns with the new proposed clause 2.1(d) of the scheme. Whilst it is helpful for the scheme to indicate the variable inputs and other matters which should be proposed by the DNSP and which will be determined by the AER, the scheme cannot limit the matters that can be the subject of a DNSP's proposal as to how the scheme could apply. For example, there are certain performance incentive scheme parameters in Chapter 5 relating to streetlight repair which will have no application in NSW as those services are not standard control services and are not subject to the scheme.

To address this, we believe the drafting of clauses 2.2(a) and 2.1(d) can be improved by minor amendments to clarify how the scheme operates in the context of the NER provisions. Suggested mark-ups (in blue text) are set out in Attachment 1.

Amendments on performance targets

The AER has proposed a new clause which limits the AER's ability to set 'declining performance' targets across the period.

EnergyAustralia notes that there may be situations where it is prudent for the AER to establish declining performance targets for a year (or years) of a regulatory period. In this case, the AER would unnecessarily limit its discretion to take these circumstances into account when making its determination for the business.

EnergyAustralia can identify two circumstances where declining performance targets are a prudent response to the circumstances of a business.

- Lumpy capital expenditure (for example a major capital project in the CBD at the end of the regulatory period) which could see a decline in performance in the CBD until the completion of the project.
- A decision by a jurisdictional regulator (known at the time of the reset process) to set declining reliability standards in the later years of a regulatory control period. For example, as part of the 2007 DRP licence conditions, the NSW Minister for Energy and Utilities prescribed a lower performance standard for Integral Energy's short rural feeders, compared to the conditions imposed under the 2005 DRP licence conditions.

We consider it should remain open to the DNSP to propose targets as part of its regulatory proposal, and for the AER to assess whether these targets meet the objectives of the national scheme. This would provide the AER with flexibility to take into account capital expenditure, known changes in jurisdictional reliability obligations, or other relevant circumstances when making its determination.

In any event, the AER should clarify that 'declining performance' targets means a deterioration in performance (for example, higher SAIDI targets over the regulatory period) as the language of the proposed amendments is not clear.

If you have any questions or would like to discuss any aspect of our comments in greater detail, please do not hesitate to contact Zubin Meher-Homji on (02) 9269 2395.

Yours sincerely



Catherine O'Neill
Executive Manager
Network Regulation and Pricing

Attachment 1 – EnergyAustralia’s suggested mark-ups to the proposed STPIS (published by the AER in September 2009)

2.1 General application of the scheme

(a) Consistent with clause 6.2.6 of the *NER*, this *scheme* applies to the control mechanism for *standard control services*.

(b) The *parameters* and the maximum revenue increment or decrement that a DNSP can receive and the payments to customers that a DNSP must make for a given level of performance are prescribed in this *scheme*.

(c) The obligation of a DNSP to comply with this *scheme* is additional to and does not derogate from any obligation imposed upon or provided for under *jurisdictional electricity legislation* or *national electricity legislation* applying to a DNSP.

(d) The AER will, in the distribution determination to which this *scheme* applies, ~~determine~~ **decide** the following in accordance with **the National Electricity Rules** and this *scheme*:

(1) The DNSP’s proposal as to the application of the scheme to the DNSP for the relevant regulatory control period (see clause 2.2), including the following variables in relation to that DNSP:

(a) each applicable component and *parameter* to apply to a DNSP including the method of network segmentation for the reliability of supply component

(b) the *revenue at risk* to apply to each applicable component and *parameter*

(c) the *incentive rate* to apply to each applicable *parameter* including the value of customer reliability (VCR) to be applied in accordance with clause 3.2.2(d) and appendix B

(d) the *performance target* to apply to each applicable *parameter* in each *regulatory year* of the *regulatory control period*

(e) any decision with respect to the transitional arrangements set out in clause 2.6

(f) the threshold to apply to each applicable *GSL parameter*

(g) the payment amount to apply to the applicable *GSL parameter*

(h) the *major event day* boundary to apply to a DNSP:

a. where the DNSP has proposed a *major event day* boundary that is greater than 2.5 standard deviations from the mean; or

b. where the *major event day* boundary that applied to the DNSP in previous distribution determinations was greater than 2.5 standard deviations from the mean; or

c. where the DNSP has proposed a *major event day* boundary that is greater than 2.5 standard deviations from the mean and where in previous distribution determinations the *major event day* boundary that has applied to the DNSP was greater than 2.5 standard deviations from the mean.

2.2 Proposals to vary the application of the scheme

(a) ~~Where the *scheme* indicates that a~~ A DNSP ~~can~~ **must** ~~make a~~ **include** in its regulatory proposal a description (including relevant explanatory material) of how the DNSP proposes the scheme should apply for the relevant regulatory control period. The proposal should include the matters listed in clause 2.1(d) and be made in accordance with and subject to clause 6.8.2 and Schedule 6.1.3 of the *NER*.

(b) A proposal made by a DNSP ~~must~~ **should** be in writing and:

(1) include the reasons for and an explanation of the proposed variation

(2) demonstrate how the proposed variation is consistent with the objectives in clause 1.5

(3) if appropriate, include the calculations and/or methodology which differ to that provided for under this *scheme*.

(c) The AER will publish its reasons for deciding to accept or reject a proposal by a DNSP in the distribution determination.