61 Mary Street
Brisbane QLD 4000
PO Box 15107
City East QLD 4002
Phone 07 3228 8222
Fax 07 3228 8118
Website www.ergon.com.au

Ref.: TP/CP

1 February 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 250
Melbourne VIC 3001

Email: AERInquiry@aer.gov.au

Dear Mr Pattas

Issues Paper: Service target performance incentive scheme for electricity distribution network service providers

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Regulatory (AER) to comment on the development of a service target performance incentive scheme (STPIS) under a national framework for economic regulation of electricity distribution networks.

The attached submission represents Ergon Energy's response to the AER's Issues Paper.

Ergon Energy looks forward to providing continued assistance to the AER in the development of a national regulatory framework for energy.

Yours sincerely

Tony Pfeiffer
General Manager Regulatory Affairs

c.c.: Carmel Price

Telephone: 07 3228 7711
Facsimile: 07 3228 8130
Email: tony.pfeiffer@ergon.com.au

Ergon Energy Corporation Limited

Service Target Performance Incentive Scheme
Issues Paper – Submission

Australian Energy Regulator

1 February 2008

Service Target Performance Incentive Scheme

Issues Paper

Australian Energy Regulator

1 February 2008

This submission, which is available for publication, is made by:

Ergon Energy Corporation Limited
PO Box 15107
City East
BRISBANE QLD 4002

Enquiries or further communication should be directed to:

Tony Pfeiffer
General Manager Regulatory Affairs
Ergon Energy Corporation Limited
Email: tony.pfeiffer@ergon.com.au
Ph: (07) 3228 7711
Mobile: 0417 734 664
Fax: (07) 3228 8130

Or

Carmel Price
Manager Regulatory Affairs – Network Regulation
Ergon Energy Corporation Limited
Email: carmel.price@ergon.com.au
Ph: (07) 4121 9545
Mobile: 0408 702 814

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Overview

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its consultation *"Electricity Distribution Network Service Providers – Service Target Performance Incentive Scheme (November 2007)"* (Issues Paper). This submission is provided by Ergon Energy, in its capacity as an electricity distribution network service provider (DNSP) in Queensland.

Ergon Energy's comments in this submission are with respect to the AER's deliberations about a national scheme(s) with applicability to all DNSPs. We note however that there are transitional arrangements in the National Electricity Rules (NER) for the Queensland DNSPs' first Regulatory Determinations[1], and our comments are therefore not applicable to those arrangements.

Ergon Energy supports the development of a national Service Target Performance Incentive Scheme (STPIS) designed to reward or penalise a DNSP for its network performance relative to a series of service targets. The service targets and measures themselves should cater for a DNSP's unique characteristics, including its operating environment, past performance and existing service obligations.

Ergon Energy would welcome the opportunity to discuss this submission or provide further detail regarding the issues that it has raised should the AER require.

Approach and Structure

In preparing its response, Ergon Energy has followed the structure of the Issues Paper and the questions raised by the AER for comment.

[1] For the period 2010-2015

1 Objectives in establishing a service target performance incentive scheme

As a general comment, Ergon Energy believes that the AER's focus in establishing a STPIS should be delivery of financial incentives for DNSPs to improve network performance.

Ergon Energy believes that development of an effective STPIS requires a clear statement by the AER of the scheme's objective. This should be relative to the range of existing network performance improvement mechanisms with which DNSPs are required to comply under the NER and by virtue of jurisdictional legislation and licence obligations. For example, a STPIS that focuses on particular measures, will result in a particular network performance response from DNSPs. If the measures were different (or are changed between regulatory periods), there would be a different network performance response from DNSPs, and hence a different outcome for customers. This is why Ergon Energy believes the AER ought to be clear as to what objective is sought, in order that the STPIS can then be tailored to delivering that objective. For example, if an objective of the scheme is to lower adverse event frequency, there will be an emphasis on SAIFI. Similarly, if an objective of the incentive scheme is to drive reductions in outage duration, the scheme would be weighted towards SAIDI.

Although existing network performance measures vary between jurisdictions and individual DNSPs, they can broadly be classified as:

- *Planning criteria* – represented by the standards that DNSPs apply when undertaking network planning and development;
- *Reliability standards* – represented by measures of average network reliability such as maximum average duration and frequency of outages within the DNSP's network (i.e. SAIDI, SAIFI, CAIDI, etc);
- *Worst performing feeder standards* – where a failure to meet minimum standards for individual feeders requires some form of remedial action by the DNSP;
- *Guaranteed service levels* (GSLs) – where a payment is made by the DNSP to an individual customer in circumstances of a service delivery failure with an impact for that customer; and
- *Service incentive schemes* – where financial reward and penalty are established within a DNSP's regulatory control arrangements to incentivise improvements in network performance.

In terms of the incentives delivered, it should be recognised that:

- Average reliability standards and worst performing feeder standards are minimum performance standards that a DNSP must achieve on a reasonable or best endeavours basis (possibly as a condition of the DNSP's licence or authority), but to which no direct financial reward or penalty is attached for achieving, exceeding or failing to meet the standard (other than the possibility of financial penalties for licence non-compliance); and
- While GSLs provide some incentive to a DNSP to improve performance, the fact that they are targeted at customers receiving the worst levels of service, means that they do not encourage network-wide service improvements.

The interaction of these schemes and their respective objectives should be carefully considered by the AER in the development of the STPIS.

Q. The AER would like views on whether it is feasible and appropriate to establish a common approach within a national framework

While Ergon Energy believes it is feasible to establish a common national framework for a STPIS, the scheme's focus should be on the improvement of a DNSP's service performance, not the comparison of performance between DNSPs.

Q. The AER would also like views on the issues it may need to consider in establishing this framework. In particular:

- **What should be the key elements?**

Ergon Energy believes that the STPIS should:

- Have an individual DNSP-related objective. For example, a DNSP with a large rural network may have a STPIS with objectives that are tailored to delivering reasonable performance in a radial topology. For a DNSP with a highly concentrated interconnected distribution network (CBD type categories), the objective of a STPIS could be to achieve network performance commensurate with customer tolerance and expectations;
- Provide performance rewards and penalties on a forward-looking basis; and
- Be based on performance targets developed by reference to a DNSP's:
  - o past performance;
  - o unique operating environment; and
  - o existing service obligations.

  That is, the performance targets must have reference to what the DNSP can realistically achieve in circumstances where it operates its network in accordance with good industry practice and undertakes investment prudently and efficiently.

On this basis, Ergon Energy believes that the initial focus of a national STPIS should be the delivery of financial incentives to DNSPs to improve network reliability.

Over time, it may be appropriate to expand the scheme's application to include:

- Incentives for DNSPs that are linked to power quality and customer service indicators; and
- GSLs, in circumstances where existing state-based GSLs cease to apply. Any GSL scheme should however operate independently of the s-factor arrangement due to their differing objectives – this is discussed further below.

- **How might a national scheme deal with differences between regions/jurisdictions?**

Ergon Energy considers that, in developing a national scheme, recognition is required of the existing differences with respect to a DNSP's:

- *Operating environment* - Further to the comment above, a national scheme should not be driven by comparison of performance between DNSPs, either within or between jurisdictions. For example, while service performance measures such as SAIDI and SAIFI may be commonly applied, service targets will need to be developed by reference to the discrete operating features of each DNSP, including:

- service area (square kilometres);
- network topology (i.e. meshed or radial);
- customer density (i.e. largely dispersed or concentrated density);
- composition and condition of network assets; and
- the level of regulated expenditure required for the management of network assets and to meet network performance levels.

- *Regulatory regime* – The varying jurisdictional regulatory arrangements to which DNSPs are currently subject with respect to service incentives, minimum service standards and GSLs should be recognised and addressed through appropriate transitional arrangements.

- **What are the possible obstacles to achieving an effective national framework?**

Obstacles to achieving an effective national framework would include:

- Variances in outage management systems and processes impacting the capture, recording and collation of service performance data;
- Limitations in the availability of independently auditable historical data; and
- Natural constraints on service delivery resulting from the DNSP's operating environment (e.g. geographic limitations).

While a number of these issues (e.g. adequacy of historical data) may be resolved over time, the STPIS will need flexibility to cater for a degree of ongoing variation between DNSPs and jurisdictions.

2 Types of service incentive schemes

2.1 Public Reporting Schemes

Q. The AER would like views on whether it should require DNSPs to report on key aspects of their service performance for public reporting purposes.

Ergon Energy supports the annual publication of an individual DNSP's service performance relative to its service targets.

Ergon Energy currently reports both quarterly and annually to the QCA on a range of service quality parameters, as defined in the QCA's *Electricity Distribution: Service Quality Reporting Guideline*.[2] These reports, as provided by Ergon Energy and ENERGEX, are published on the QCA website together with commentary and explanatory information developed by the QCA.

Importantly however:

- The service quality measures that are reported are not intended to provide a comparison between DNSPs and there is an explicit acknowledgement by the QCA that Ergon Energy and ENERGEX's performance will vary significantly on a number of service quality measures due to differences in their operating environments;[3]
- Network performance can differ greatly from year to year as a consequence of events such as storms, bushfires, cyclones, and high wind activity. If statistics are not normalised, it may distort the regulator's or public's perspective of the DNSP's inherent performance; and
- If normalised statistics are reported without clear explanation of the derivation methods, customers are likely to complain that the reported figures are not reflective of the level or standard of performance that is experienced by them. Reporting therefore needs to provide a clear explanation as to how the performance data was derived.

Q. If so, should DNSPs be required to report just on those aspects of service performance measured for an incentive scheme (e.g. GSL scheme or s-factor scheme) or on a common set of agreed measures?

Ergon Energy believes that:

- DNSPs should report to the AER against all aspects of services measured under the STPIS that applies to them;
- The public reporting of elements of the STPIS which are fundamentally financial in nature, such as a 's-factor scheme', will be of limited value for consumers and therefore any public reporting should occur on a subset of the broader service performance measures under the STPIS; and

[2] Found at http://www.qca.org.au/files/ElectricityDistributionServiceQualityGuidelinesv2.pdf

[3] For example, refer to QCA, *Electricity Distribution – Service Quality Performance for the September Quarter 2007*, at page 1. Found at http://www.qca.org.au/files/E-QCA-ServiceQual-Sept2007.pdf

- We make the comment in Section 1 that the objective of the STPIS may well be different for different DNSPs, or different classes of DNSPs. For example, DNSPs with a large rural network may have a STPIS with measures that are tailored to delivering reasonable performance within a radial topology. It should be noted that distribution feeders are categorised by virtue of their inherent characteristics and do not make any consideration for the upstream network configuration. Many of Ergon Energy's urban distribution feeders are supplied via radial transmission and subtransmission systems in addition to being difficult to access. This will have an impact on reliability performance.

  Therefore the measures contained within the STPIS may be different (and hence not common) to all DNSPs. We do not believe there should be a requirement for common measures in order to achieve common reporting.

It is anticipated that the service measures supporting the STPIS will form a subset of the broader range of financial and other measures upon which the AER will require DNSPs to periodically report. Ergon Energy believes that it would be appropriate to consider the nature of these other measures through a separate consultation process.

Q. The AER would also like views on how future reporting arrangements which may be multi-faceted (i.e. reporting to the AER in relation to an incentive scheme and potentially for public reporting purposes) could be simplified or rationalised to reduce compliance costs.

Any public reporting should be derived from the service performance data provided to the AER – i.e. the service measures that are reported upon publicly should form a subset of the service measures reported to the AER. This would reduce resource and production costs and ensure consistency in the data provided for regulatory and public reporting purposes.

While, as noted above, Ergon Energy currently reports both annually and quarterly to the QCA on a range of service parameters, the public benefit of quarterly reporting relative to the cost of producing this information, is questioned. Ergon Energy believes that there is more value in a DNSP reporting on its service performance over multiple years than its performance within a particular financial year or quarter, as this allows the public to see if the DNSP is converging towards or diverging away from its performance targets over time.

Ergon Energy therefore supports a regime under which:

- Service performance reports are produced annually;
- Public reporting is derived from the broader set of data reported by the DNSP to the AER; and
- A view of service performance is provided across several years.

2.2 GSL Schemes

Q. The AER would like views on whether it should develop a national GSL scheme.

Ergon Energy supports the development of a national GSL scheme to replace existing jurisdictionally based schemes. This would ensure that a DNSP's service-related obligations are addressed through a single regulatory framework.

Further to the comments above however, Ergon Energy believes that it would be unduly onerous, from an implementation, monitoring and compliance perspective, to require distributors to operate under concurrent (and potentially conflicting) national and state based schemes.

As a consequence, a national GSL scheme should not be introduced for a DNSP until such time as its jurisdictionally-based GSL scheme has been removed.

Q. The AER would also like views on issues associated with the implementation and operation of a national GSL scheme.

Any national GSL scheme should recognise discrete characteristics of different distributors, when defining services and establishing service delivery requirements. These issues are not dissimilar from other service-related aspects of a national framework, i.e. the regime should recognise:

- Different outage management systems and processes for capturing, recording and collating outage data;
- Limitations in the availability of independently auditable historical data streams;
- Impacts for a DNSP with a pure distribution network and a DNSP with a proportion of subtransmission network;
- The weather dependent statistical variability of network performance;
- Service levels within different network topologies (Meshed or Radial);
- Diverse customer densities; and
- Different service level expectations and tolerances of customer segments.

Consistent with existing jurisdictional GSL schemes, any national arrangements would also need to be supported by:

- Appropriate limitations of liability and immunities (e.g. legislative acknowledgements that payments are not an admission of liability by a DNSP); and
- Practical arrangements for administration (e.g. payment methods and the 'backing-out' of DNSP and retailer responsibilities).

The extent to which existing jurisdictional legislative and regulatory instruments (e.g. Use of System and Coordination Agreements) could be relied upon for this purpose would need to be assessed in the absence of a national framework for the non-economic regulation of distribution and retail.

2.3 Financial incentive (s-factor) schemes

Q. The AER would like views on the overall design of a national s-factor scheme. In particular:

- **The form that a national s-factor scheme might take**

As a preliminary comment, Ergon Energy believes that the s-factor scheme should be limited to reliability indicators and should not extend to quality of supply or customer service performance standards.

As noted above, the s-factor scheme should:

- Provide performance rewards and penalties on a forward-looking basis; and
- Be based on performance targets developed by reference to a DNSP's:

- o past performance;
- o unique operating environment; and
- o existing service obligations.

That is, the performance targets must have reference to what the DNSP can realistically achieve in circumstances where it operates its network in accordance with good industry practice and invests prudently and efficiently.

- **Whether the scheme should be symmetrical**

Ergon Energy supports a scheme that has reward and penalty incentives with scope for different 'limits' on the reward and penalty applied (including scope for no penalty at all). The incentive values need to be tailored to each measure, the relevant circumstances of each DNSP, and to encourage appropriate levels of service quality improvement within each DNSP's area.

- **The number of measures that should be included**

Ergon Energy supports the introduction of a small number of targeted network reliability measures for inclusion in the s-factor for the initial regulatory control period.

These measures must be readily understood and accepted, capable of tracking and quantification and reflective of system performance.

The introduction of additional service indicators addressing issues such as power quality could be assessed for future introduction once a set of nationally recognised measures have been defined and there is sufficient historical data available to support their effectiveness.

- **Any other relevant threshold matters not dealt with elsewhere in this paper.**

Ergon Energy has no additional comment on threshold issues at this point in time.

Q. To what extent should existing s-factor schemes form the basis of a national scheme?

While Ergon Energy believes that guidance can be taken from the operation of existing s-factor schemes, it should be recognised that these schemes were established under different regulatory frameworks to achieve service outcomes and objectives specific to the DNSPs within those jurisdictions.

2.4 Interaction between GSL schemes and s-factor schemes

Q. The AER invites views on the establishment of both GSL and s-factor schemes in a national framework. In particular:

- **Should both types of schemes be implemented**

Ideally, GSL and s-factor schemes would both be implemented at a national level with no state-based duplication or concurrent schemes. Even under a national framework however, these schemes should operate independently as, by their nature, they are intended to achieve distinctly different objectives.

- **Is the value to customers of having both types of schemes sufficient compared to the additional costs associated with having to implement and administer multiple schemes, and**

The cost of administering multiple schemes is primarily a concern in circumstances where state and national schemes continue to operate concurrently.

- **How should information requirements be set to minimise compliance and collection costs?**

Ergon Energy refers to the comments above regarding the derivation of data and frequency of reporting.

3 Types of service performance measures in s-factor schemes

As a general comment, Ergon Energy:

- Supports the inclusion of reliability indicators in the s-factor scheme;
- Does not support the inclusion of customer service indicators in an s-factor scheme and believes that these would be more appropriately addressed in a GSL scheme; and
- Does not support the inclusion of power quality indicators in the s-factor scheme until such time as a DNSP has an established and proved capability to capture and record power quality parameters.

Ergon Energy's preliminary view as to the nature of these measures is discussed below.

3.1 Reliability indicators

Ergon Energy currently reports to the QCA on SAIDI, SAIFI and CAIDI using two methods:

- 12 month rolling - which reflects average network performance experienced for the 12 months to the end of the quarter reported; and
- Quarterly – which reflects the network performance occurring in the quarter reported.

Each reliability indicator is measured and reported on the basis of:

- Distribution system – total[4];
- Distribution system – urban feeders;
- Distribution system – short rural feeders;
- Distribution system – long rural feeders;
- Distribution system – planned; and
- Distribution systems – unplanned.

The individual reliability targets for urban, short and long rural feeders are contained in the Queensland Electricity Industry Code established under the Queensland *Electricity Act 1994* at the discretion of the Queensland Government[5]. The 'feeder type' definitions applied are broadly aligned to those agreed by the Utility Regulators' Forum.

[4] Note that there is a permanent Queensland derogation in the NER s9.32.1 which means that network assets classification as *distribution* and *transmission* is not distinguished by voltage, but instead by ownership i.e. Queensland DNSPs own assets that are considered *distribution* even though they are of the traditional *transmission* voltage.

[5] This is consistent with the Australian Energy Markets Agreement Annexure 2 which sets out the separation of responsibilities between National and States/Territories.

Q. The AER would like views on which measures of reliability to include in a national s-factor scheme?

Ergon Energy believes that:

- SAIDI and SAIFI are appropriate measures for inclusion in a s-factor scheme;
- While Ergon Energy currently reports CAIDI, its appropriateness as a measure of reliability is questioned, on the basis that:
    - it is a representation of customer's experience due to an outage and does not reflect a supply system's performance; and
    - as CAIDI it is the ratio of SAIDI/SAIFI, a disproportionate improvement in one measure may lead to a misleading CAIDI result. For example, relatively higher improvements in outage frequencies compared to outage durations, could translate to a higher CAIDI value.

  It is suggested however that unplanned CAIDI could be used as a measure of a DNSP's operational effectiveness.
- The ability to report on MAIFI will vary relative to the monitoring capabilities of individual DNSPs. In particular:
    - data collection is difficult for those areas of the network where there is no SCADA coverage;
    - limitations in historical data will make it difficult to identify an appropriate target; and
    - automatic switching schemes (e.g. load control) are designed to improve system SAIDI at the cost of momentary interruptions, thereby distorting MAIFI outcomes.

  Inclusion of MAIFI as an indicator is therefore not recommended at this time.
- To avoid distortions, reliability should be measured and reported separately for the distribution and subtransmission voltages/segments of a supply network. Further to this:
    - only reliability outcomes associated with the distribution voltages/segment of a supply network should be included in the s-factor scheme;
    - reliability indicators for subtransmission should be based on distribution criteria, not on any transmission s-factor scheme; and
    - different reliability targets are likely to be required for DNSPs' subtransmission and distribution voltages/segments.

Q. The AER would also like views on the classification of feeders by type and whether the AER should distinguish between planned and unplanned interruptions.

Ergon Energy believes that the proposed classification of feeders by type and their associated definitions are appropriate for distribution.

While Ergon Energy currently reports on both planned and unplanned interruptions, the following issues are raised for consideration in the development of a national scheme:

- Ergon Energy believes that the incentive scheme should only include unplanned performance by feeder category. Planned SAIDI should be removed on the basis that:

- maintenance and construction activities should be allowed sufficient time to satisfy performance improvement initiatives – this would not only assist in ensuring the safety of staff and system assets, but also reduce the potential for unplanned outages resulting from poorly planned works;
- the impact of planned outages on the reliability of a radial network will vary significantly from that occurring within a meshed network; and
- planned outages may be indicative of a high level of capital investment in the network where planned outages are necessary to connect new customers.

3.2 Quality Indicators

Ergon Energy currently reports to the QCA on the following indirect measures of power quality:

- The number of complaints categorised by various quality of supply 'symptoms' (e.g. low supply, voltage dips and voltage spikes); and
- The average number of days to fix a technical supply fault.

Q. The AER would like views on the appropriateness of incorporating quality indicators in a future s-factor scheme, including the likely costs and benefits of incorporating quality indicators, the possible types of measures that could be used, and the availability of historical data.

Ergon Energy believes that indirect measures of power quality are inappropriate for inclusion in a s-factor regime. As noted in the Issues Paper, such measures are flawed in that they are imprecise (e.g. the classification of customer complaints is subjective) and are prone to influence by factors beyond a DNSP's control (e.g. customer equipment).

It is considered that the use of intelligent electronic devices to collect data (e.g. voltage at the distribution sub at the end of a distribution feeder) is a more effective means of understanding and gauging system performance at supply points than the number of customer complaints received. To implement a monitoring system however involves significant lead-time and investment. The numbers of feeders, accessibility, communications coverage, and data consistency are all issues which will vary significantly between distributors.

Ergon Energy therefore considers that power quality indicators should not be incorporated into any s-factor scheme until such time as:

- Power quality measures can be applied consistently at a national level. It is considered that a philosophy on monitoring should first be developed and that this should be implemented in stages to allow all DNSPs adequate time to plan and install monitoring units; and
- A DNSP has an established and proven a capability to track and record its network's power quality parameters.

Q. Should supply quality be addressed in a different way such as through a GSL scheme or some other scheme?

Supply quality measures should not be introduced until such time as a set of nationally recognised measures have been defined and there is sufficient historical data available to support their effectiveness.

Ergon Energy does not believe that it is appropriate for power quality issues to be addressed through a GSL or alternative scheme. GSLs are focused on penalising distributors for service failures to individual customers, not providing incentives for improvement of system performance.

3.3 Customer Service Indicators

Ergon Energy does not support the inclusion of customer service indicators in an s-factor scheme at this time.

Q. The AER would like views on customer service indicators to be included in an s-factor scheme, including the likely costs and benefits, and feasibility, of incorporating a range of indicators.

Ergon Energy does not support the inclusion of customer service indicators in an s-factor scheme and believes that these would be more appropriately addressed in a GSL scheme.

Ergon Energy notes that this would not preclude a requirement for a DNSP to report to the regulator or publicly on appropriate customer service measures – simply that a financial penalty or incentive would not be linked to the measure through the s-factor scheme.

Q. Would customer service indicators be more appropriately addressed in a GSL or other scheme?

Ergon Energy believes that customer service indicators would be more appropriately addressed in a GSL scheme permitting a direct payment to customers in circumstances of service delivery failure.

With respect to the customer service measures raised for consideration in the Issues Paper, Ergon Energy comments that:

- The number of calls answered within 30 seconds – this is not a robust indicator of either business performance or customer satisfaction. The relevance of this indicator also decreases as customers transition to internet transactions over time;
- Quality of telephone response - customer satisfaction or first contact resolution would provide a more general measure;
- Timeliness of response to written enquires – the number of written enquiries has decreased over time, reducing the relevance of this as an indicator;
- Time to repair a streetlight – this measure is of limited direct relevance to customers, and in any event, some DNSPs may not have street light provision and maintenance classified as *distribution services* under their Regulatory Determination;
- Timeliness of connections and reconnections – this is more appropriate for application as a GSL; and
- Number of different types of complaints – interpretations and classifications can vary.

Ergon Energy believes that the following alternative measures would provide a more meaningful basis of reporting against customer service performance:

- First contact resolution;
- Customer satisfaction; and
- Completion of service within prescribed levels.

4 Approaches to setting rewards and penalties in an s-factor scheme

Ergon Energy does not have a view at this time as to a preferred approach for setting an s-factor incentive rate.

Q. The AER would like views on the above approaches for setting incentive rates and other possible approaches.

Ergon Energy does not have a view at this time as to a preferred approach for setting an s-factor incentive rate but notes that any measure of customer willingness to pay will necessarily be imprecise.

Strategies, such as paper trials and reward/penalty limits should be considered by the AER during the initial periods of a national scheme as a means of mitigating the risk that rewards and penalties may be set too high.

Q. The AER would like views on the feasibility and associated costs and benefits of adopting each approach.

No specific comment is provided.

Q. The AER would also like views on how it should determine relative weightings for measures.

The AER should determine the relative weighting for each measure in a manner consistent with the objectives sought to be achieved by the scheme.

5 Approaches to setting performance targets under a s-factor scheme

Ergon Energy believes that a DNSP's moving average historical performance may provide an appropriate basis for setting performance targets.

Q. The AER would like views on the possible approach outlined above to setting targets in an s-factor scheme.

Ergon Energy considers that a DNSP's moving average historical performance may provide an appropriate basis for setting performance targets as it captures both:

- Normalised historical performance; and
- The long-term trend of system performance (including the possible impact of weather pattern changes).

6 Allowing for risks

Ergon Energy supports the potential application of a combination of mechanisms to manage the risks to which a DNSP is exposed under a s-factor scheme, including a paper-trial for the initial regulatory control period in which it is applied.

Q. 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 DNSPs and/or customers.

Ergon Energy believes that the additional risks for a DNSP associated with the introduction of a s-factor scheme should be managed through:

- A combination of risk management mechanisms. For example, the application of both:
  - a 'deadband' – representing 'upper' and 'lower' bands around existing minimum service standards; and
  - an 'overall limit' on the financial penalty – represented as either a dollar amount or percentage of the ARR per annum; and
- A paper-trial for the initial regulatory control period in which the s-factor scheme is applied. This would allow the AER and the DNSP to identify the effectiveness and limitations of the s-factor scheme in driving the DNSP's network performance towards long term targets, without jeopardising its performance improvement initiatives and revenues for current period.

  It is noted that paper-trials have been applied in a number of jurisdictions as a precursor to the introduction of monetary incentives.

7 Allowing for exclusions

Ergon Energy supports the application of both quantitative and qualitative measures in determining whether an event should be excluded from the service incentive mechanism.

Q. What approach should the AER take in applying exclusions?

Ergon Energy supports the AER adopting a combination of quantitative and qualitative measures when allowing for exclusions:

- Quantitative measures should be established through the application of the 2.5 beta exclusion method to establish a threshold for an extreme event/major event day. Ergon Energy supports the adoption of the IEEE 1366-2003 standard for this purpose. However Ergon Energy considers that the major event day should be defined by reference to the 24 hour period from the time of the event, rather than from the start of the calendar day on which the event occurs. In Queensland IEEE 1366-2003 is currently applied to identify major event days which are to be excluded from the minimum service standards established pursuant to the Queensland Electricity Code.
- Qualitative measures require a degree of specification so as to avoid issues regarding interpretation. An example is provided by clause 2.4.3 of the Queensland Electricity Industry Code which provides that in determining whether a distribution entity has exceeded its SAIDI Limits or SAIFI limits, the following interruptions will not be taken into account:
    - An interruption of a duration of one minute or less (momentary);
    - An interruption resulting from:
        - load shedding due to a shortfall in generation;
        - a direction by NEMMCO, a system operator or any other body exercising a similar function under the Electricity Act, National Electricity Rules or National Electricity Law;
        - automatic shedding of load under the control of under-frequency relays following the occurrence of a power system under-frequency condition described in the power system security and reliability standards;
        - failure of the shared transmission grid (Powerlink in Ergon Energy's case);
        - a direction by a police officer or another authorised person exercising powers in relation to public safety;
        - any unplanned interruption to the supply of electricity which commences on a Major Event Day; and
        - an interruption caused by a customer's electrical installation or failure of that electrical installation.

Q. Should exclusions cover reliability indicators and customer service indicators?

Ergon Energy believes that exclusions should apply to reliability, customer service indicators and GSL schemes.

Q. Should exclusions be determined by reference to qualitative or quantitative measures?

As discussed above, Ergon Energy supports exclusions being determined by reference to both qualitative and quantitative measures.

Q. How appropriate is a standard such as IEEE 1366-2003?

As discussed above, Ergon Energy supports the adoption of IEEE 1366–2003 as the quantitative measure but considers that the 24 hour period should be altered to commence from the time of the event.

Q. Where an exclusion threshold is exceeded what action should the AER take to limit the contribution of events?

Where an exclusion threshold is exceeded, the AER should permit a DNSP to exclude all of the performance statistics for the day from the reported figures. This proposed approach is consistent with IEEE 1366-2003.

8 Implementation issues for the transition to a national scheme

At this point in time, Ergon Energy has limited its comments to those issues that it would face as a DNSP in transitioning from its existing state-based arrangements to a national s-factor and GSL scheme.

Q. Are there any other issues that the AER needs to consider for jurisdictions currently without a s-factor scheme?

Ergon Energy believes that the AER should give consideration to the following transitional issues in addition to those identified in the Issues Paper:

- Issues relating to legislative transitional arrangements – The AER must take account of any jurisdictional transitional arrangements provided for in Chapter 11 of the NER. For example, the Queensland transitional arrangements under clause 11.6.5 provide for the following with respect to the development of the STPIS:

  In formulating a service target performance incentive scheme to apply to ENERGEX and Ergon Energy for the regulatory control period, the AER, in addition to the requirements in clause 6.6.2(b), must also:

  (1) take into account the continuing obligations on ENERGEX and Ergon Energy throughout the regulatory control period to implement the recommendations from the EDSD Review adopted by the Queensland Government;

  (2) take into account the impact of severe weather events on service performance; and

  (3) consider whether the scheme should be applied by way of a paper trial or whether a lower powered incentive is appropriate.

- Issues relating to the impact of the scheme on network performance – The use of paper-trials where appropriate may assist in the management of uncertainties regarding the effectiveness and limitations of the s-factor scheme in driving the DNSP's network performance.

Q. The AER invites comments from interested parties on the current and future accuracy of data for reliability and quality of supply measures for DNSP's currently without an s-factor scheme.

The accuracy of reported reliability data will vary according to different systems and processes adopted by various DNSPs in capturing, recording and collating of outage data. For example, while Ergon Energy's reported performance statistics are based on actual customer to network links, a number of distributors use extrapolated numbers of customers based on post codes and energy not served to calculate performance indices.

Ergon Energy suggests that:

- To verify the quality and consistency of it reported data, a DNSP should be required to stay within certain level of accuracy with a percentage of 'over and under' estimations allowed. For instance, under the Queensland Electricity Industry Code, Ergon Energy is required to achieve the ± 5% accuracy in maintaining and reporting its minimum service performance data; and

- A DNSP's reported data could be externally audited during the regulatory control period to provide assurance to the AER that its data accuracy meets the requirement of the scheme.

Q. The AER invites submissions relating to the interaction between mandatory jurisdictional service standards and a national STPIS for DNSPs currently without an s-factor scheme. For example, what benefits and limitations could the existing mandatory jurisdictional service standards place on the implementation of a national s-factor scheme?

The minimum service standards with respect to reliability established under Chapter 2 of the Queensland Electricity Industry Code are in the nature of regulatory obligations enforceable under licence. They do not provide financial incentives for the Queensland DNSPs to improve service performance above the minimum reliability levels or impose financial penalties on Queensland DNSPs in circumstances where the minimum reliability levels are not met (other than the possibility of a financial penalty for licence non-compliance).

Therefore, while the AER should have regard to the minimum service standards in setting the s-factor targets, the minimum service standards and s-factor regime are not substitutes for each other, in terms of either the levels of reliability set or the financial incentives applied. That is, the performance threshold at which a financial reward is received should be set at a level above the minimum service standard and the performance threshold at which a financial penalty is incurred should be set at a level below the minimum service standard.

Q. If the AER were to develop a national GSL scheme, what issues arise regarding existing GSL schemes (that are mandated under jurisdictional electricity legislation) operating concurrently with a national scheme.

As noted previously in this submission, Ergon Energy believes that it would be unduly onerous, from an implementation, monitoring and compliance perspective, to require DNSPs to operate under concurrent (and potentially conflicting) national and state based schemes. We also believe that the Australian Energy Markets Agreement's Annexure 2 provides supporting guidance about the intention that customer service performance standards should be a national function and linked to economic regulation. There therefore needs to be co-ordination between the national and jurisdictional bodies to ensure an appropriately funded and workable arrangement is achieved.