

8 February 2018

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas

Response to draft STPIS – 2017 amendment

Evoenergy (formerly ActewAGL Distribution) welcomes the opportunity to respond to the AER's draft amended Service Target Performance Incentive Scheme (STPIS).

Evoenergy would like to make comments on several matters pertaining to its specific circumstances, as well as transitional issues in relation to the operation of the amended STPIS and the price review process for the upcoming 2019-24 regulatory period.

Transitional arrangements:

Evoenergy notes that its proposal for the 2019-24 regulatory period, which was submitted on 31 January, has been developed with reference to the STPIS guideline that is currently in place. It is expected that the final amended STPIS will be published in June 2018, during the current price review process and before the expected release of the AER's draft decision in September 2018. In its proposal, Evoenergy seeks to reserve the right to amend its STPIS proposal in the revised proposal if necessary in response to the amended STPIS.

Issues where Evoenergy seeks clarification from the AER in the price review process include:

- The appropriate stage within (or after) the current price review process in which Evoenergy should implement the simplified s-factor calculations in the existing pricing models
- Implications of the amended STPIS for the AER's RIN reporting process and the Annual Benchmarking Report, in particular any requirements for data and results to be backcast for historical comparability.

Ratio of SAIFI and SAIDI incentive rates:

Evoenergy notes the AER's objective of changing the ratio in a way that provides a higher incentive to maintain CAIDI performance. However the AER's methodology itself does not reflect the bias in financial incentives that in the AER's view, give rise to increasing CAIDI under the existing 50:50 ratio.

Originally, the AER identified in its issues paper that there was a favourable opex/capex tradeoff such that there was an incentive for DNSPs to spend on capex, which mostly address SAIFI, rather than opex for SAIDI, for a given STPIS reward. In the AER's view, this has resulted in SAIFI performance generally exceeding SAIDI among DNSPs. However, aside from a hypothetical example the AER has not provided supporting evidence on the quantum of this incentive.

In the draft decision, the AER does not appear to further address the SAIDI/SAIFI cost-benefit tradeoff or evidence of consumer preferences for different SAIDI/SAIFI cost-benefit tradeoffs. The AER's arguments for selecting the 60:40 ratio appears to be based on simply targeting a 5% reduction in the total STPIS reward relative to the 50:50 ratio. This rather arbitrary argument does not demonstrate that the proposed 60:40 ratio equalises the financial incentives between choosing to target SAIFI or SAIDI, or that it is more consistent with consumer preferences.

The AER's approach of targeting an outcome is also at odds with the rationale for using an incentive scheme, as distinct from simply setting a standard. As with other submissions that were made to the issues paper, Evoenergy remains of the view that there is a lack of objective evidence or methodology to confidently determine that a change to the weighting is appropriate.

While Evoenergy notes that capex investments such as auto-reclosers and network automation may produce small improvements in SAIDI, the scope for significant improvements for the ACT network is small due to limited emergency response work crews. As a result, achieving further significant improvements in SAIDI would face diminishing returns to expenditure even under the current ratio. This situation would be exacerbated by placing a greater emphasis on SAIDI as proposed in the draft decision. Increasing the weight given to SAIDI would restrict the effective incentives for Evoenergy to manage its reliability performance.

Views on revised feeder definitions:

Evoenergy notes that the current feeder definitions have been revised as per the Draft Reliability Measures Guideline. Evoenergy would like to bring to the AER's attention that the revised definition for urban feeders, which is based on 3-year averages of maximum demand, results in arbitrary variations in feeder classifications. Furthermore, the 0.3MVA per/km threshold was derived mainly from the Victorian perspective and does not apply well to Evoenergy's network.

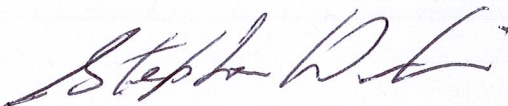
Unlike most other DNSPs, Evoenergy's network contains a number of feeders that cross both urban and rural areas. Evoenergy considers that a less volatile definition of urban and rural feeders is important to maintain regulatory stability and certainty. Such measures can include installed transformer capacity per km (as previously proposed by Endeavour Energy) or a measure based on population density. The requirement to calculate 3-year rolling averages based on constantly changing feeder definitions also presents a significant administrative burden, as well as creating problems in data consistency and continuity across different years.

Views on MAIFI implementation:

Although Evoenergy is supportive of MAIFI as a reliability measure in the amended STPIS, there are potentially issues in including it as a reliability performance parameter for 2019-24 due to data availability or reliability issues. Evoenergy will make assumptions on how to manage circumstances where there is insufficient or inconsistent MAIFI data on which to derive a 5 year performance target.

If you have any questions or require any further information in relation to the matters discussed above, please contact Karonny Fok, Senior Regulatory Analyst on (02) 6248 3012.

Yours sincerely

A handwritten signature in black ink, appearing to read "Stephen Devlin".

Stephen Devlin
General Manager
Evoenergy

