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

Dear Mr Pattas

### Consultation for amendments to the Service Target Performance Incentive Scheme

Thank you for providing IPART with the opportunity to comment on your December 2017 draft amended Service Target Performance Incentive Scheme (STPIS). IPART is the NSW safety and reliability regulator for electricity networks. We monitor compliance with the [Electricity Supply Act 1995](#) and the [Electricity Supply \(Safety and Network Management\) Regulation 2014](#). The Tribunal also has experience in recommending the NSW transmission reliability standards. This experience informs this submission, which the Tribunal has asked me to make on its behalf.

In general, it is the Tribunal's view that economic cost benefit analysis should guide the design of standards and incentive schemes for reliability. [We recommend that the AER undertake an economic cost benefit assessment to support its conclusions in the four areas outlined below.](#)

### Changing the threshold of momentary interruption from one to three minutes

In our 2016 review of transmission network reliability standards for NSW, IPART developed reliability standards by applying an economic assessment that identified the level of reliability that would provide the most value to customers.<sup>1</sup> In particular, our assessment took into account both the cost of providing reliability, which is paid for by customers through their electricity prices, and the costs to customers of experiencing outages. We used evidence-based studies to measure these costs.

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<sup>1</sup> IPART, "Electricity transmission reliability standards—Supplementary Final Report", November 2016.

<https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-12-publications-electricity-transmission-reliability-standards/supplementary-final-report-electricity-transmission-reliability-standards-november-2016.pdf>

IPART has recommended to the NSW Government that we could set the distribution reliability standard using a similar economic approach.

We consider that there is merit in setting both the reliability standards and the STPIS on a consistent basis. The consistent use of evidence in relation to costs and customer value would facilitate this process. We note that your proposed change from one minute to three minutes is based on an approach set out by the AEMC in its 2014 Final Report. However, that approach did not use an explicit cost benefit analysis. [We recommend that the AER reviews the value of customer reliability, which could then be used in any review of the distribution licence standards.](#)

### Ratio of SAIFI to SAIDI incentive rates

The relative weights given to frequency (SAIFI) and duration (SAIDI) measures in the STPIS may influence the way that distribution businesses act to improve their reliability. Conceptually, expenditure on devices such as auto-reclosers could help to bring the duration of some types of events below the threshold for momentary interruptions. This would improve both SAIFI and SAIDI, but may not reduce CAIDI (the ratio of SAIDI to SAIFI).

The AER observed a pattern of worsening CAIDI over time, despite improvements both SAIFI and, to a lesser extent, SAIDI.

[We recommend that you apply an economic assessment of your reweighting proposal to compare the expected results under the current weights to the expected results under the proposed new weights.](#) This would compare additional costs to the networks it would impose to the value customers would place on any improvements that might result.

### Exclusions and major event day (MED)

As you note, the 2.5 beta method will remove these catastrophic events without a specific exemption. Removing them before employing the Institute of Electrical and Electronics Engineers (IEEE) approach would only increase the number of excluded days in a way not intended by the IEEE standard.

We agree with your concern that no satisfactory objective definition of catastrophic events is available. In fact, it was this inability to define such major event days that motivated the IEEE to develop its statistically based 2.5 beta method.

In cost benefit terms, the removal of catastrophic events would convey benefits to distribution businesses, who would find it easier to meet reliability targets that exclude a larger number of interrupted days. Offsetting that benefit, customers would experience a greater cost in two respects. First, they would not receive compensation for some of the interrupted days if the new catastrophic event rule excludes them. Second, they would tend to receive less reliable service on normal days. With more interrupted days excluded from the calculation, a distribution business could meet its reliability targets with worse performance on the remaining days.

## Additional suggestion

At present, there is no measure of electricity supply quality included in the price incentive scheme. We recommend that for a future review, the AER could explore whether it would be desirable to provide distribution businesses with the incentive to manage their performance on quality indicators. These indicators could include maintaining a normal supply voltage range.

We note that some jurisdictions such as Victoria provide for compensation by distribution businesses when an unauthorised voltage variation damages a customer's property.<sup>2</sup> However in other jurisdictions including NSW, there is no industry-specific mechanism by which consumers can seek redress for such damage. Compensation is at the discretion of the distributor, subject to any protections under the Australian Consumer Law such as the consumer guarantees.

Maintaining a normal supply voltage range could be important to end-customers because it affects the service life and energy efficiency of appliances. This is especially the case for power surges following electrical storms. However, even where power surges do not take place, prolonged exposure to supply that is out of voltage or frequency range can have an adverse long-term effect on electrical appliances. Damage of this type may not be readily compensable through existing mechanisms, even in Victoria.

In keeping with our other observations above, regulators should base any move to bring quality of service into the compensation framework on an assessment of the benefits to consumers and the costs to distribution businesses of achieving a higher standard.

We would be pleased to discuss any aspect of this submission further with you, if that would be helpful. IPART's contact officer for this matter is Mike Smart, Chief Economist, contactable on (02) 9113 7728.

Yours sincerely



**Hugo Harmstorf**  
Chief Executive Officer

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<sup>2</sup> Office of the Regulator-General, Victoria, "Electricity Industry Guideline No. 11 - Voltage Variation Compensation (Guideline)," April 2001.