The Hon Lily D'Ambrosio MP

Minister for Energy, Environment and Climate Change
Minister for Suburban Development

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Mr Chris Pattas
General Manager
Australian Energy Regulator
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Dear Mr Pattas

**REVIEW OF THE SERVICE TARGET PERFORMANCE INCENTIVE SCHEME - SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR**

I refer to the issues paper published by the Australian Energy Regulator (AER) on 5 January 2017, relating to the review of the Service Target Performance Incentive Scheme (STPIS). I am conscious that the AER requested submissions by 24 February 2017, but thought it necessary to make some high-level observations on STPIS to assist the AER in its review.

**Relationship between STPIS and the revised f-factor Scheme.**

The revised f-factor Scheme provides significant incentives to reduce fire starts in high-risk geographies at high-risk times. Distributors have noted that this may also provide a strong financial incentive to manage high risk feeders differently at times of high fire risk. As AusNet Services noted on page 10 of its 7 November 2016 submission to the f-factor Regulatory Impact Statement, "while we will not compromise safety – reliability performance may be compromised if excessive financial penalties are introduced through an amended f-factor scheme." Such an outcome could, for instance, be as a consequence of a business policy not to promptly restore power to a feeder with a tripped circuit recloser or other network safety device at high fire risk times.

Whilst such an action would eliminate any risk of a fire start, it would also endanger vulnerable people and potentially inhibit communications and firefighting at these times. There needs to be an appropriate tension between reducing fire starts and maintaining reliability of electricity supply. That is, the financial incentives provided by the f-factor scheme and STPIS must be appropriately balanced. This was an important consideration in setting the quantum of the f-factor incentive rate. It is also an important consideration, with respect to STPIS, in determining exclusions, the ratio of System Average Interruption Frequency Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) and the weighting of rural feeders.

**Exclusions**

As outlined above, it is appropriate to preserve the tension between the incentives provided by the f-factor and STPIS. This tension reflects the operational challenge of maintaining the correct balance between supply reliability and community safety especially on days of heightened bushfire risk. For that reason, the AER's intent not to modify the current exclusion methods by adding "catastrophic events" is supported.

In addition, consideration should be given to reviewing each instance of a Major Event Day Exclusion to determine whether distributors' operational actions reasonably deal with the causes of supply interruptions on these days and if they have exercised all reasonable avenues to minimise reliability impacts. If not, the AER should have the right under the STPIS to determine the inclusion of the SAIDI value of that particular day in the overall STPIS calculations. Managing the balance between safety and reliability will remain an ongoing challenge in light of changes made to the f-factor, alterations proposed to the STPIS by the AER and with the introduction of enhanced powerline network bushfire safety standards in Victoria.

**Ratio of SAIDI & SAIFI and weighting of rural feeders**

Victorian distributors have generally outperformed their STPIS targets, and received positive financial rewards, with United Energy and Citipower being the exceptions. As noted in the issues paper, this overall result was driven by reduction in outages, in comparison to duration of outages. As measured by CAIDI, performance of Victorian distributors has deteriorated period to period. In view of the introduction of the revised f-factor scheme (as discussed above), the substantial reduction in CAIDI performance for rural feeders is of particular concern. In this context, the issue of the ratio of the reward/penalty rates between SAIDI and SAIFI, highlighted by the AER is of particular importance. It may also be appropriate, given the tension between STPIS and the f-factor, to consider a heavier weighting for rural networks.

**Introduction of REFCLs and impact on benchmark targets**

In order to reduce the risk of powerlines starting bushfires the Andrews Labor Government has required distributors to meet new standards for network protection in high risk geographies. Distributors currently intend to meet this requirement by progressively installing Rapid Earth Fault Current Limiters (REFCLs) at the relevant zone substations, with installations being completed by 2023.

The REFCL network testing process should ensure that normal levels of reliability are achieved shortly after commissioning, and consequently any STPIS exemption associated with an individual REFCL installation should be limited.

REFCL deployment has the capacity to significantly increase reliability by enabling interruptions to be limited to customers who are affected by the single faulty phase on three-phase high-voltage 22 kilovolt powerlines, leaving customers on the unaffected phases connected to supply. With the REFCL program being completed early in the next EDPR period, consideration should be given to adjusting STPIS targets to reflect the expected increase in reliability to provide a suitable incentive on distribution businesses to maximise the reliability potential of this technology.

If you require further information please contact Ashley Hunt, Director, Powerline Bushfire Safety Program, Department of Environment, Land, Water and Planning, on (03) 9412 4554.

Yours sincerely

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