

8 February 2018

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

Submitted via: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

Dear Mr Pattas,

**RE: Draft Amended Service Target Performance Incentive Scheme**

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) on the amended draft of the Service Target Performance Incentive Scheme (STPIS) for electricity Distribution Network Service Providers (DNSPs).

As the Transmission Network Service Provider (TNSP), DNSP and jurisdictional planner in Tasmania, TasNetworks is focused on delivering safe and reliable electricity network services while achieving the lowest sustainable prices for Tasmanian customers. In this regard, TasNetworks would like to make several comments on the STPIS and how we are incentivised to manage reliability outcomes for our customers within the Tasmanian context.

**Changing the threshold of a momentary interruption from 1 minute to 3 minutes**

TasNetworks supports the AER's decision to change the momentary interruption threshold from 1 to 3 minutes in the STPIS. TasNetworks agrees this will encourage investment in automation facilities to restore supply more quickly after a network fault and considers this will lead to improved customer outcomes.

TasNetworks notes, however, that this will require changes to our reporting systems which will incur financial cost. Additionally, TasNetworks will be unable to back cast figures for performance reporting purposes from inception. Instead there will be a delay before

historical reporting can be provided whilst reporting systems are adjusted and data is collected.

### **Ratio of SAIDI and SAIFI incentive rates**

As with the majority of DNSPs and Energy Networks Australia (ENA), TasNetworks does not consider there are good reasons for changing the ratio of SAIDI and SAIFI incentive rates. TasNetworks agrees with earlier contributors that the increase in average outage duration time is simply a by-product of customer supported improvements in overall network outage outcomes, facilitated amongst other things via a reduction in SAIFI.

Similarly, TasNetworks does not consider that the current incentive rates bias spending to improve supply reliability toward capex investment. As highlighted by other contributors, DNSPs prioritise spending, whether capex or opex, based on those opportunities expected to have the most impact on overall network reliability. This incorporates the value of customer reliability (VCR), customer expectations and the unique network characteristics particular to each jurisdiction.

TasNetworks is concerned that changing incentive rates to bias SAIDI outcomes may have unintended negative consequences for customers. This may result from increased network costs over time and/or improvements in network reliability inconsistent with customer perceptions of value. TasNetworks contends this is most likely to occur in those jurisdictions where:

- the marginal cost of improving SAIDI is high;
- ongoing annual investment, rather than once-off expenditure, is required to maintain and improve SAIDI;
- customer preference is for fewer but longer lived outages; and
- in those situations where opportunities to reduce overall network outage times via tools that improve both SAIDI and SAIFI outcomes are overlooked in favour of SAIDI only opportunities.

TasNetworks is absolutely committed to ensuring the best reliability outcomes for customers. As such, TasNetworks considers that if any changes to SAIDI and SAIFI incentive ratios are considered necessary, then those changes must be in keeping with customers and their expectations concerning the value to, and reliability of, supply. Setting the incentive ratios via the determination process, in consultation with customers, may be one way to achieve this and align the maintenance and investment in network infrastructure with customer expectations of reliability.

## **Exclusion and treatment of Major Event Days (MEDs)**

TasNetworks supports excluding load interruptions from the classification of MEDs where they are caused, or extended, by a direction from state or federal emergency services.

TasNetworks considers one other useful exclusion to MEDs within the STPIS may be where de-energisation occurs, or is prolonged, for safety considerations other than those at the direction of emergency services and/or when a customer requests not to be reconnected. TasNetworks acknowledges that the clarity of any such exclusions would be critical in ensuring consistent application across DNSPs.

## **Feeder classifications**

TasNetworks supports the AER's position on feeder classification across the NEM for reporting and information purposes. However, TasNetworks does not support the transition to feeder based classifications for the Tasmanian STPIS and jurisdictional reliability.

Tasmania has one of the most regionally dispersed populations in Australia with many feeders crossing multiple geographic boundaries and having very low load densities. TasNetworks does not consider that basing reliability standards on 3-year average peak demand and average 3-year feeder route length provides for appropriate classification of customers within the Tasmanian context.

TasNetworks is concerned that the new methodology will result in:

- Reclassification of customers from a classification with a higher reliability standard to that of a lower reliability standard. These customers may see a decline in service performance from what they have become accustomed to as expenditure is reprioritised towards non-compliant customers.
- Reclassification of customers from a lower reliability standard to that of a higher reliability standard. This may drive investment in reclassified areas to meet higher performance standards, even though customers may not be willing to pay for these improvements in reliability performance.

For these reasons, TasNetworks contends that the current geographical classification approach, as mandated by jurisdictional compliance requirements, provides the best representation of Tasmanian customer expectations of reliability.

## **Value of customer reliability**

TasNetworks notes the AER has retained the 2008 VCR values in the draft amended STPIS. Given these values are dated, and that the AER has applied the VCR values determined by the Australian Energy Market Operator's (AEMO's) 2014 Value of Customer Reliability Review to TasNetworks' current determination, TasNetworks contends the 2008 VCR values

should be removed from the amended STPIS guideline. TasNetworks supports the use of other VCR values within the STPIS, where applicable, to the extent that jurisdictional differences in customer reliability are faithfully represented and volatility impacts on customer bills are minimised. For instance, from too oft reviewed and changed VCR values, particularly at times inconsistent with the revenue determination periods of DNSPs.

#### **Other minor refinements to the scheme**

TasNetworks is supportive of the proposed changes to adjustments in allowed revenue and S-factor calculations. TasNetworks welcomes the simplification of the calculation methodology and considers the changes will promote greater fairness of the scheme when performance exceeds S-factor caps.

TasNetworks also supports the AER's proposal to further standardise reporting of affected customers. TasNetworks notes, however, that current reporting constraints preclude the classification of faults as single or multi-phase. As with momentary interruption reporting, cost will be incurred to facilitate this and back casting historical performance will not be possible at inception.

If you wish to discuss any aspect of this submission, I can be contacted via email ([tim.astley@tasnetworks.com.au](mailto:tim.astley@tasnetworks.com.au)) or by phone on (03) 6271 6151.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tim Astley', with a horizontal line extending from the end of the signature.

Tim Astley

Team Leader NEM Strategy and Compliance