



Incitec Pivot Limited

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Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Email: electricity@qca.org.au

24 Oct 2003

Dear Gary,

RE: Electricity Distribution – Service Quality Incentive Mechanism

Incitec Pivot is pleased to comment on the Electricity Distribution Service Quality Incentive Mechanism, particularly the draft report prepared by Meyrick and Associates and Pacific Economics Group, dated 11 August 2003.

While we commend Meyrick and Associates and Pacific Economics Group for preparing such a comprehensive report, we found the report confusing and omitting the following key information.

1. Queensland has one of the lowest levels of distribution reliability performance (SAIFI, SAIDI and CAIDI) across Australia, according to the 2002 distribution statistics from Electricity Supply Association of Australia (ESAA).
2. If the proposed reliability measures were accepted, Queensland State would have the least number of distribution reliability measures in the country. Six¹ reliability measures were proposed in the draft report for Queensland distributors in comparison to eleven² in use in NSW and eight recommended by the Regulators Forum.

¹ SAIFI, SAIDI, CAIDI, MAIFI, Call Centre and Worst list

² SAIFI, SAIDI, CAIDI, MAIFI, Call Centre, MAIFI, Connections, Appointments, Street lights, Outage notice and Disconnection



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Incitec Pivot suggests that any targets set for the incentive scheme should aim at “best practice” in Australia as a starting point, as Queensland’s distribution reliability performance appears to be behind the other states. The number of reliability measures for Queensland should be consistent with, but not less than, other states. MAIFI in particular is an important measure for customers operating engineering equipment and should not be omitted from the list of measures.

Incitec Pivot recommends an additional reliability measure, Customer Average Interruption Frequency Index (CAIFI)³ for QCA’s consideration. CAIFI measures the number of interruptions that affected customers experienced in a year, thereby bringing focus to the problem areas.

$$\text{CAIFI} = \frac{\text{Total no. of interruptions}}{\text{No. of customers experienced an interruption}}$$

The impact of electricity failure on customers varies, depending on voltage levels, consumption and activities. The reliability requirements and targets set for the incentive scheme should cater for the different classes and magnitudes of customers. From Incitec Pivot’s experience, large customers do not have countervailing power in negotiations with distributors, nor do they have the necessary negotiating and legal resources to develop a satisfactory agreement with the distributor. We do not have a performance based connection agreement with our distributor.

We agree with the draft report, page 27 that a service quality incentive scheme should measure outages as observed by the customers, rather than measured by the network alone. More discussion is required to propose ways to achieve this.

³ Productivity Commission Staff Research Paper - Electricity Prices and Cost Factors, p.137, Chris Sayers and Dianne Shields, 2001



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Provided the targets are set at the appropriate level, the scheme should commence from 1 July 2005, the next regulatory period, rather than be delayed to 2010. We believe that a three-year paper trial prior to commencement of the scheme is not essential, as sufficient historical data is available through ESAA. However, we suggest limiting the reward/penalty to 1% of the distribution revenue initially, subject to variation if required.

In summary, Incitec Pivot is in support of a service quality incentive scheme but recommending the following changes prior to the scheme's commencement:

- The reliability targets should start at the "best practice" level in Australia;
- The number of reliability targets should be increased from six to at least twelve, including MAIFI and CAIFI;
- Additional targets should be in place for measuring outages observed by the customers, rather than measured by the network alone; and
- The scheme should commence from 1 July 2005, the next regulatory period, thereby bringing benefits to customers sooner.

Please contact me on (07) 3867 9849 for further clarification or discussion as required.

Regards,
Christine Ip
Energy Manager
Incitec Pivot Limited