



11 March 2009

Mr Trevor Evans
Senior Analyst
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Trevor,

**REVIEW OF MINIMUM SERVICE STANDARDS AND GUARANTEED SERVICE LEVELS –
COMMENTARY ON SUBMISSIONS RECEIVED**

Thank you for your recent emails enclosing the submissions received in relation to the Authority's recent draft decision relating to MSS and GSL dated January 2009. We have reviewed the submissions and provide the following comments in relation to each submission.

ENERGEX

ENERGEX has raised three issues in relation to MSS. These are discussed below.

i) Feeder Categories - ENERGEX has sought an adjustment to the MSS targets to reflect the impact of changes in feeder categories – put simply, as the network grows the best performing Rural feeders migrate to become worst performing Urban feeders – adversely impacting the average in both groups. The high growth rate in South East Queensland exacerbates this effect. ENERGEX's peers are exposed to the same issue but to a lesser extent.

ii) MSS Targets – ENERGEX generally supports the MSS targets proposed. However ENERGEX notes that with respect to Urban SAIDI, they had proposed a reduction of 2 minutes per annum over the next regulatory period. Given the significant improvement which has already been made in the actual Urban SAIDI, Evans & Peck has recommended a reduction of 4 minutes per annum, and this has been accepted by the QCA.

ii) Planned Outages – ENERGEX (and Ergon Energy) has raised issues relating to an apparent conflict between the requirements of the Electrical Safety Act (ESA) and the MSS Scheme. This issue was not raised by either ENERGEX or Ergon Energy in their August 2008 responses to the QCA's discussion paper on the MSS scheme.

As a broad generalisation, the ESA has a requirement that electrical work be performed de-energised unless there are good reasons why this should not be the case (and appropriate safety management is in place), whereas the MSS scheme targets the reduction of total outages, including both planned and unplanned. ENERGEX suggests three alternatives:

- All planned outages be excluded from the MSS (as is the case in NSW);
- Certain planned outages be excluded from the calculation of performance against the MSS; and
- An additional allowance could be made in the MSS targets to account for this additional planned work.

By way of background, *the Electrical Safety Act 2002* was introduced in 2002. Clause 12 of the *Electrical Safety Regulation 2002* requires (part only quoted):

12 Requirements for performance of live work

- (1) The following circumstances are required for the performance of live work—
- (a) it is not practicable to perform the electrical work other than by live work because of 1 or more of the following—
- (i) it is necessary in the interests of safety, whether or not electrical safety, for the work to be performed while the electrical equipment the subject of the electrical work is energised;
- Example for subparagraph (i)—*
- It may be necessary in the interests of road safety for a set of traffic lights to remain operating while electrical work is performed on the lights.
- (ii) a supply of electricity is necessary for the proper performance of the electrical work;
- (iii) there is no reasonable alternative to performing the electrical work by live work;
- Example for subparagraph (iii)—*
- It may be necessary, to avoid widespread outages, to perform electrical work on works of an electricity entity by live work.
- (b) the employer or self-employed person has prepared, in a document,¹ a risk assessment of the performance of the live work;
- (c) the performance of the electrical work is in accordance with a safe system of work;
- Example—*
- A safe system could include preventing persons from accessing the area where live work is being performed if the persons are not needed for the performance of the work.
- (d) the employer or self-employed person authorises the performance of the live work only after consultation with the person in control of the electrical equipment the subject of the electrical work;

This requirement has not changed since 2002. In response to the issues raised, Evans & Peck has spoken to senior representatives from the Electrical Safety Office to confirm that there have been no explicit changes in the requirements by way of directive, regulation or like events. The issue at hand appears to be a more rigorous implicit interpretation of the requirements by the distributors themselves, associated with a heightened level of prudence in relation to health and safety issues, in part arising from a number of safety incidents.

We have considered each of ENERGEX's three possible courses of action. We do not support elimination of planned outages from the MSS measures (even though this may be the case in NSW and the AER's STPIS scheme is based on unplanned outages only). It is our understanding that a guiding principle of the Queensland MSS scheme is that service standards should be seen from the perspective of customer rather than the utility. In our view, customers do not significantly differentiate between planned and unplanned outages.

Evans & Peck is of the view that, notwithstanding the impacts of legislation as outlined above, the distributors have significant control over the frequency and duration of planned outages. This ranges from efficiency in system operation in terms of areas impacted and duration of outages, the use of low voltage parallel feeds and mobile generation, good work planning to bundle activities and the like. To this end, we recommend that the MSS scheme continue to be based on both planned and unplanned outages (net of the current exclusions) so as to reflect those issues which are in the control of the distributors. We do not agree that the need to comply with the ESA, and meet MSS levels are mutually exclusive.

In relation to the second suggestion – that certain planned outages be excluded from MSS reporting, we do not believe this to be practical from a regulatory perspective on an ongoing basis. Whereas the current exclusions are either deterministic in nature (through application of 2.5 Beta) or are a few exceptional events at a high level (transmission / generation), the proposed exclusions envisaged would presumably entail a significant number of small events. We do not perceive this to be a practical outcome.

ENERGEX's third alternative is to make some adjustment to the MSS levels. We have examined the issue of planned outages from two perspectives:

- Changes in ENERGEX / Ergon Energy's historical performance; and
- Peer comparison in relation to planned outages.

The following graphs show the trend in ENERGEX and Ergon Energy's Total System planned SAIDI and SAIFI. Whilst ENERGEX's values are trending upwards, no firm conclusions can be drawn from Ergon Energy's data.

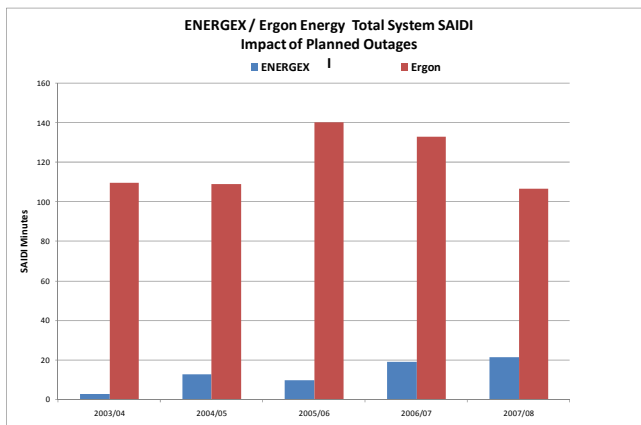


Figure 1 – Historical Trend in Planned SAIDI

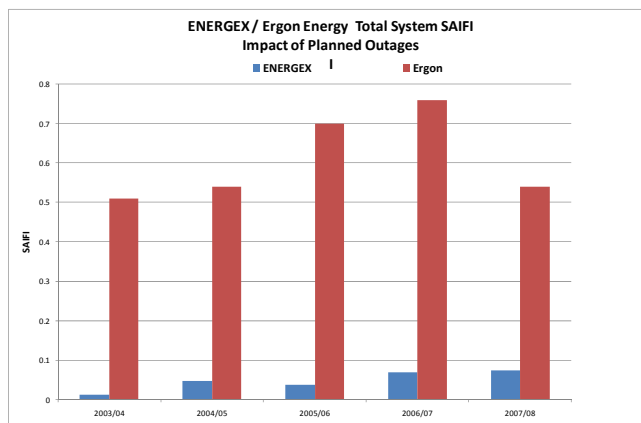


Figure 2 – Historical Trend in Planned SAIFI

In terms of peer performance, we have compared planned SAIDI and SAIFI for a number of NSW and Victorian distributors averaged over a number of years (based on data availability). These comparisons are shown in figures 3 and 4 below.

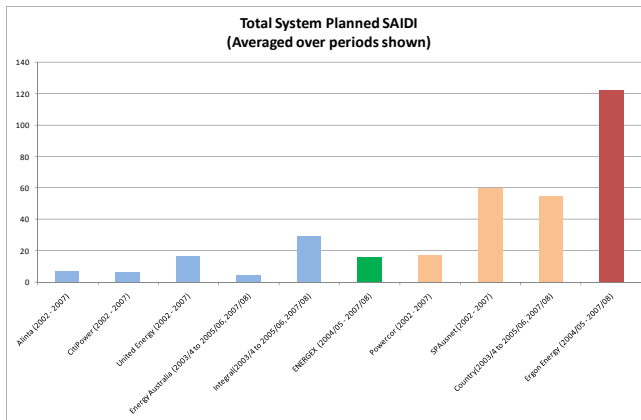


Figure 3 – Comparative Planned SAIDI

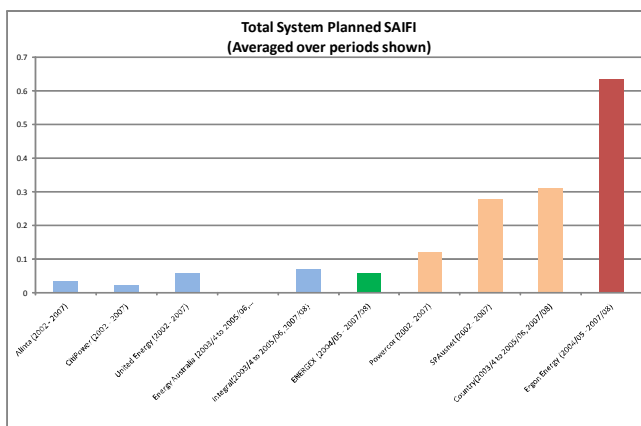


Figure 4 – Comparative Planned SAIFI

Clearly, Ergon Energy has a significantly different planned outage profile to its peers (Country Energy, Powercor and SP AusNet). However, it is by no means clear that ENERGEX presents a different profile to that of its peers¹. We have also examined comparative values between NSW and QLD in relation to specific feeder categories. This is shown in figure 5. There is no clear differentiator between ENERGEX and Integral Energy, but ENERGEX’s planned outages are significantly above those of EnergyAustralia. In Ergon Energy’s case there are clear differentiators, consistent with the findings above.

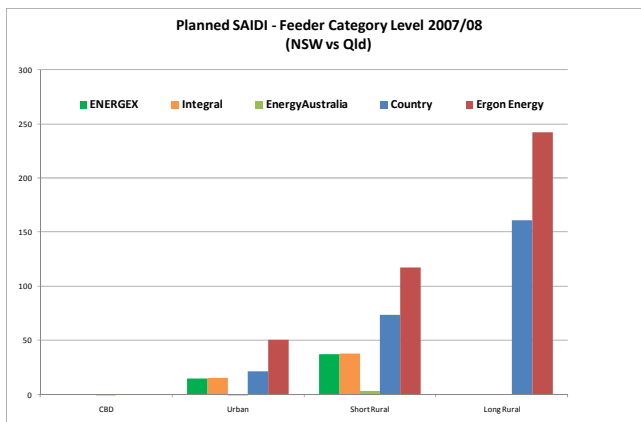


Figure 5 – Comparative Planned SAIDI - Feeder Level

¹ With the exception of EnergyAustralia, who has extremely low levels of reported planned outages

After consideration of the issues presented in ENERGEX's submission, and our subsequent investigations and analysis, we have concluded that ENERGEX has not made a sufficiently robust case to justify an increase in either SAIDI or SAIFI in any feeder category. Our recommendation would therefore be to maintain the values contained in the Draft Decision. Ergon Energy's case is further discussed below.

With respect to GSL, ENERGEX supports the proposal to escalate the level of GSL payments by 30%, although ENERGEX would have preferred an increase of 25%.

Ergon Energy

Ergon Energy has raised a number of issues in their response. The first issue relates to the absence of a clear willingness of customers to pay for improved reliability. This issue was canvassed in our previous report. Given that the AER has now framed the STPIS in the context of the Value of Customer Reliability approach, we see no cause for to change to the QCA's Draft Decision in this regard.

The second issue relates to the CAIDI that is implied by the SAIDI and SAIFI targets. Our comments in relation to this issue are as follows:

- Under the standards adopted in the Draft Decision, the change in the implied CAIDI between 2009/10 and 2014/15 is less than 2% in the case of Urban and Long Rural Feeders, and 1% in the case of Short Rural feeders. This has reduced from around 5% implicit in the indicative standards.
- The reduction in the 10 year period from 2005/06 to 2014/15 in the implied CAIDI is around 7.5% in the case of Urban feeders, 2.4% in the case of Short Rural and 2.2% in the case of Long Rural. In the context of the technology options available to improve CAIDI over a 10 year period, we would not see this as a particularly arduous requirement. Notwithstanding, the initial levels set at the beginning of the previous regulatory period may have reflected the issue that Ergon Energy is now raising.
- Statistically, because SAIDI and SAIFI are not perfectly correlated, division of a P90 SAIDI by a P90 SAIFI does not necessarily give rise to a meaningful CAIDI measure.
- There is no specific target relating to CAIDI. As such, our focus is on the appropriateness of SAIDI and SAIFI values as such. The implication arising from Ergon Energy's comments is that SAIDI values have been set too low for the corresponding SAIFI values. Conversely, a low implicit CAIDI could also relate to SAIFI being set too high for a given SAIDI.

We have re-examined the SAIDI / SAIFI values both in this context and the third issue raised - the contribution from planned outages. This issue is discussed at length above and highlights the differentiation between Ergon Energy and its peers. After due consideration, we are of the view that there may be some justification for relaxing Ergon Energy's Urban SAIDI value. Our earlier recommendation, which was adopted by the QCA, set Short Rural and Long Rural values significantly above what we considered to be "peer" performance. This was in recognition of two factors;

- Current performance, and what may be achievable; and
- The nature of Ergon Energy's network in comparison to its peers.

We do not believe a case has been made for a review of these values. In the case of Urban Feeders however, and specifically Urban SAIDI, we established a relatively tight relationship between peer performance, and Ergon Energy's MSS level.

After consideration of the issue arising from the implied CAIDI argument (rather than CAIDI perse) and the analysis on planned outages completed, we are of the view that a further increase of at least 5 minutes (by 2014/15) in Urban SAIDI is warranted in Ergon Energy's case. Consequently, we recommend that the QCA reduce the rate of decline to 1 minute per annum post 2009/10, rather than 2. We do not believe an adjustment in SAIFI is warranted.

Ergon Energy's fourth issue relates to weather impact and statistical variability. In our view, the setting of the MSS values at around the p90 value, as discussed in our earlier report, and the impact of the 2.5 Beta exclusion mechanism largely overcome this problem. Should future non compliances occur, we are confident that the QCA will give consideration to such issues and no further adjustments to the Draft Decision are required.

The final issue raised by Ergon Energy relates to the escalation of GSL's by 30% and proposed overall cap of \$416. Ergon Energy would have preferred an increase of 25% and overall cap of \$400. This matter has been dealt with by the QCA. This is a matter for the QCA.

Queensland Council of Social Services (QCOSS)

QCOSS represents welfare and community sector organisations in Queensland. Their activities include consumer advocacy in relation to energy, and particularly the impacts on low income households.

QCOSS has made a number of recommendations in relation to the Draft Decision. The recommendations are stated below together with our comments.

Recommendation 1: QCOSS recommends an independent examination of customer satisfaction with respect to the current reliability and quality of service, and the capacity and willingness of Queensland consumers to pay for improved reliability and quality service.

Evans & Peck also believes further research is required to assess these issues with respect to Queensland consumers. We would therefore support a study of customer satisfaction prior to the next regulatory period.

Recommendation 2: QCOSS recommends that the QCA introduce specific MSS targets for the worst served consumers (i.e. the 15 per cent of customers who experience the longest time off supply) for the regulatory control period commencing 2010-11.

Recommendation 3: QCOSS recommends that the QCA require distribution businesses to report annually on the reliability of supply experienced by the 15 per cent of customers who experience the longest time off supply.

Recommendation 4: QCOSS recommends that the QCA annually publicly report on distribution businesses' level of service to the worst served 15 per cent of consumers.

Evans & Peck supports the general intent of these recommendations. However, the issue is dealt with under the Queensland Electricity Industry Code, section 2.3.2:

"The distribution entity must include the following information in each network management plan;...

(k) how worst performing feeders are defined and an analysis of the performance of worst performing feeders in the past financial year and of worst performing feeders identified in the preceding network management plan...;"

Whilst this may not go as far as QCOSS has envisaged in terms of customer numbers, we are of the view that it meets the general intent of focussing improvement in those areas receiving the worst reliability. At this stage, our recommendation is to continue to deal with these issues through the Network Management Plan process.

Recommendation 5: QCOSS recommends that the QCA carefully monitor any future electricity price determinations to ensure that any cost savings resulting from the proposed relaxation of the indicative MSS targets for the regulatory control period commencing 2010-11 are reflected in prices to consumers.

The Australian Energy Regulator (AER) is taking over economic regulation. MSS is an input to the building blocks used to assess the Annual Price Requirements. Whilst a matter for the AER, we are confident that the relaxation of standards will be taken into account.

Recommendation 6: In the absence of the above undertakings on the part of the QCA, QCOSS oppose any relaxation of the indicative targets and recommends that given the lack of data that customers are satisfied with their current level of supply reliability the indicative MSS targets for reliability of supply for the regulatory period commencing 2010-11 are maintained.

In the context of the countervailing argument presented by Ergon Energy that there is also limited evidence to suggest that customers are willing to pay for improved service, we are of the view that the recommended targets represent a reasonable compromise between these somewhat countervailing views.

Recommendation 7: QCOSS recommends that the Momentary Average Interruption Frequency Index (MAIFI) be included as a reliability service standard as soon as possible and at a minimum no later than the 2015-2020 regulatory control period.

Recommendation 8: QCOSS recommends that the QCA initiate a dialogue with distributors as soon as possible in order to ensure that appropriate mechanisms and processes are put in place to support the monitoring and reporting of MAIFI. QCOSS recommends that consumer groups be involved in this dialogue.

Recommendation 9: QCOSS recommends that distributors be required to report against MAIFI as soon as is practically possible in order to establish historical data to guide the establishment of targets for future MAIFI MSS.

Recommendation 10: QCOSS supports the view of Evans and Peck that a working group is established in 2009 to facilitate an ongoing dialogue on the introduction of MSS for quality of supply for the 2015-2020 regulatory period. QCOSS also recommends that this working group address potential customer service MSS measures.

Recommendation 11: QCOSS recommends that distributors be required to report against quality of supply and customer service measures as soon as is practically possible in order to establish historical data to guide the establishment of targets for future quality of supply and customer service MSS.

In relation to recommendations 7 to 11, the AER will assume responsibility for the economic regulation of ENERGEX and Ergon Energy from 1 July 2010. The AER has indicated its intent to introduce a Service Target Performance Incentive Scheme to operate during the 2010/11 to 2014/15 regulatory period. In its publication "*Preliminary position – Framework and Approach Paper - Application of schemes - ENERGEX and Ergon Energy 2010–15 – June 2008*" the AER has indicated that whilst the STPIS scheme would normally include SAIDI, SAIFI and MAIFI, they "*understand that ENERGEX and Ergon do not have the data gathering capacity to measure momentary interruptions*²". On this basis, we conclude that no immediate action can be taken in this regard. Should it emerge that MAIFI will form part of the STPIS scheme in future regulatory control periods, further consideration may need to be given as to whether it also forms part of the MSS scheme at that stage. In our view, no further action is required by the QCA at this stage.

Recommendation 12: QCOSS supports the QCA proposal to escalate GSL payment amounts for the upcoming regulatory period.

Noted. This is a matter for the QCA.

Recommendation 13: QCOSS recommends that the current \$100 GSL payment amount for failure to follow the prescribed disconnection procedure be increased to \$325 per day (assuming a starting point in line with Victoria and applying the 30% escalation to account for inflation), that pro-rata amounts for any part of a day that the supply of electricity is disconnected be introduced, and that there be no cap on the maximum payment possible. Customers should also be notified where payments for wrongful disconnection are as a result of retailer action or inaction.

Recommendation 14: QCOSS recommends that the current GSL payment amounts of \$40 for connection not provided by the agreed date and reconnection not provided by the agreed date be increased to \$130 per day (increasing the starting point by a similar proportion to that recommended

² Australian Energy Regulator, *Preliminary position – Framework and Approach Paper - Application of schemes - ENERGEX and Ergon Energy 2010–15 – June 2008*, page13

for the wrongful disconnection GSL and applying the 30% inflation increase), and that pro-rata rates for any part of the day that the supply of electricity is not connected are introduced.

In relation to recommendations 13 and 14, Evans & Peck is of the view that the current levels provide sufficient drivers on the distributors to meet the intent of the GSL scheme.

Recommendation 15: QCOSS recommends that the QCA introduce a graduated GSL payment amount structure for the GSLs for the duration and frequency of interruptions to supply, such that the GSL payment amount is higher for poorer levels of service.

Evans & Peck believe this recommendation would introduce a greater level of complexity into the GSL arrangements and little evidence has been brought forward to suggest the current simplified approach is failing to meet the intent of the GSL scheme.

Recommendation 16: QCOSS recommends the removal of the general cap of \$320 per year per customer for GSL payments.

The cap has been substantially increased under the current review. An unlimited cap may expose distributors to significant administrative costs arising from potential vexatious claims.

Recommendation 17: QCOSS recommends annual adjustment of the GSL payment amounts, taking into account changes to the costs of supplying energy.

Annual adjustment would add additional level of complexity and administration to the scheme. The current arrangement is that the level is adjusted to the mid-point in the next regulatory period.

Recommendation 18: QCOSS recommends that a time limit be introduced requiring distributors to process a GSL claim within 1 month (or 20 business days) after it is received from a customer.

Currently under the EIC, distributors have an obligation to respond “promptly”. Evans & Peck considers that QCOSS’s request to have this quantified is reasonable, and recommends consideration be given to setting this at 20 business days in the QCA’s final decision.

Recommendation 19: QCOSS recommends that the time limit for a customer making a GSL payment application be extended to 3 months (or 60 business days whichever is the longer).

Evans & Peck does not support this position. Claims should be made when the facts are immediate. Additional delay caused by extending the time limit is not warranted.

Origin Energy

The Origin Energy submission comments on the fact that in some cases the actual performance achieved is well below the MSS standards set. The Evans & Peck report states that a distributor must target “average” performance well below the MSS value to achieve a manageable probability that the MSS level will not be exceeded regularly. In statistical terms the MSS levels are set at about the “1 in 10 year” performance, whereas annual results are usually around the mean. Distributors should be aiming to consistently achieve better performance than the prescribed standard. In particular, Origin Energy notes that for ENERGEX the CBD SAIDI standard is proposed at 15 minutes whereas ENERGEX has been achieving 4 minutes or less. Based on observation of events impacting ENERGEX’s peers, CBD proposed standards have a high band because of the very asymmetrical nature of outage events and limited protection under the 2.5 Beta exclusion methodology. In the particular case of the ENERGEX CBD feeders, a single major event could significantly impact on the outcome in any given year.

Evans & Peck is of the view that the proposed standards as stated are reasonable.

Queensland Consumers Association

The Queensland Consumers Association makes a number of specific comments in the submission. With respect to MSS, the association believes a review of the introduction of voltage supply and

monetary interruptions should be undertaken as soon as possible. This supports Evans & Peck's view that an independent study into additional reliability indices should be undertaken.

The association also recommends that more communication should be provided with respect to consumers' rights and the publicity of the GSL scheme. This is a matter for the QCA and the distributors.

The association also comments about the various circumstances under which wrongful disconnections could occur. In particular, the association notes that retailers may have caused the wrongful disconnection. Introduction of new GSL style payments for retailers is not within the scope of the current review.

The association recommends that the GSL for wrongful disconnection should be set at \$250 per day and that such payments should be excluded from the annual cap on entitlements. As indicated with respect to QCOSS there does not appear to be evidence to support a substantial increase in this GSL payment.

Financial Counsellors' Association of Queensland

The association provided a submission endorsing the 30% increase in GSL payments and the overall cap.

Conclusion

Based on the submissions received, Evans & Peck does not believe significant change to the Draft Decision is required. However based on our review of the submissions, we propose the following amendments:

- With respect to Ergon Energy, Urban SAIDI should reduce at the rate of 1 minute per annum post 2009/10, rather than 2 minutes as currently proposed.
- With respect to the obligation under the Electricity Industry Code in relation to processing a GSL payment, the wording should be changed from "*promptly*" to "*within 20 business days*".

We would also support the view expressed in some of the submissions that the QCA should consider further research in relation to customer satisfaction with respect to reliability and quality of service, and capacity and willingness to pay.

If you have any questions in relation to the matters addressed in this letter, please do not hesitate to contact me.

Yours sincerely
EVANS & PECK PTY LTD

BILL GLYDE
Principal