



**Draft Decision**

**Review of Electricity Distribution  
Network Minimum Service Standards  
and Guaranteed Service Levels to apply  
in Queensland from 1 July 2010**

**January 2009**

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## SUBMISSIONS

This report is a draft only and is subject to revision. Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (the Authority). Submissions are invited from interested parties concerning this review of the minimum service standards and guaranteed service levels and payments to apply to the Queensland distribution networks of Energex and Ergon Energy from 1 July 2010. The Authority will take account of all submissions received by the due date.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would prefer to receive an electronic version in Microsoft Word © format by e-mail. Submissions, comments or enquiries regarding this paper should be directed to:

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The **closing date** for submissions is **COB on Monday, 27 February 2009**.

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While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt documents within the meaning of the *Freedom of Information (FOI) Act 1989*, it cannot guarantee that submissions will not be made publicly available. As stated in section 187 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person's consent, provided the Authority is satisfied that the person's belief is justified and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required by law to reveal confidential information in response to an FOI request.

### Public Access to Submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at [www.qca.org.au](http://www.qca.org.au). If you experience any difficulty gaining access to documents please contact the Authority on (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority's website.

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**GLOSSARY**

AER	Australian Energy Regulator
Authority	Queensland Competition Authority
CAIDI	Customer Average Interruption Duration Index
CBD	Central Business District
Code	Electricity Industry Code (Queensland), 4th edition
DME	Department of Mines and Energy (Queensland)
DNSP	Distribution Network Service Provider
EDSD Review	Electricity Distribution and Service Delivery Review
ESCOSA	Essential Services Commission of South Australia
ESCV	Essential Services Commission
FRC	Full Retail Competition
GSL	Guaranteed Service Level
MAIFI	Momentary Average Interruption Frequency Index
MSS	Minimum Service Standard
NEL	National Electricity Law
NEM	National Electricity Market
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
STPIS	Service Target Performance Incentive Scheme
VCR	Value of Customer Reliability

## 1. INTRODUCTION

*Under the Electricity Industry Code (the Code), the Authority is required to review the Minimum Service Standards (MSS) and the Guaranteed Service Levels (GSL) and GSL payments to apply from the beginning of the next regulatory control period commencing on 1 July 2010.*

### 1.1 Current MSS and GSL arrangements in Queensland

The MSS and GSL arrangements in Queensland are set out in the Code. The latest (fourth) edition of the Code came into effect on 4 August 2008. This edition of the Code included MSS requirements based on a review conducted by the Department of Mines and Energy (DME), which was completed in early 2007. GSL arrangements in the Code have not been reviewed since the first edition of the Code came into effect on 1 January 2005.

#### *MSS arrangements*

The Code sets annual MSS (by financial year) in relation to the duration and frequency of distribution outages that are to be met by Energex and Ergon Energy during each year of the current regulatory period.

The duration of outages is measured by the System Average Interruption Duration Index (SAIDI). This is a measure of how long each customer is without supply during the relevant period, when averaged over all customers on the network (or averaged over customers on specified parts of the network).

The frequency of outages is measured by the System Average Interruption Frequency Index (SAIFI). This is a measure of the number of supply interruptions each customer experienced during the relevant period, when averaged over all customers on the network (or averaged over customers on specified parts of the network).

There are MSS for different types of network feeders, reflecting different service standards that should be achievable at reasonable cost across the distributors' entire network. Energex's network is split into CBD, urban and short rural feeder categories while Ergon Energy's network is split into urban, short rural and long rural feeder categories. All MSS are net of the impact of excluded events such as severe storms.

As reported in Table 1, most of the current MSS require steady improvement in the reliability of electricity supply provided by Energex and Ergon Energy over the regulatory period. Reflecting the differences in their networks, the MSS for Energex are more stringent than for Ergon Energy.

**Table 1 - Current MSS, 2005-06 to 2009-10**

<i>Feeder Type</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
SAIDI standards for Energex (minutes)					
CBD	20	20	20	20	20
Urban	155	145	134	122	110
Short Rural	265	255	244	232	220
SAIDI standards for Ergon Energy (minutes)					
Urban	215	205	195	180	150
Short Rural	590	570	550	500	430
Long Rural	1,150	1,130	1,090	1,040	980
SAIFI standards for Energex (number of interruptions)					
CBD	0.33	0.33	0.33	0.33	0.33
Urban	1.73	1.64	1.54	1.43	1.32
Short Rural	2.77	2.70	2.63	2.56	2.50
SAIFI standards for Ergon Energy (number of interruptions)					
Urban	2.70	2.60	2.50	2.30	2.00
Short Rural	5.40	5.20	5.00	4.50	4.00
Long Rural	8.75	8.60	8.50	7.80	7.50

Source: Queensland Electricity Industry Code, Schedule 1 – Reliability Limits.

The Code also includes “indicative” MSS for the period from 2010-11 to 2014-15, as shown in Table 2. As the name suggests, these are indicative standards only and are in no way binding on the distributors. Binding MSS to apply from 2010-11 are to be set by the Authority as part of this review.

**Table 2 - Indicative MSS, 2010-11 to 2014-15**

<i>Feeder Type</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Indicative SAIDI standards for Energex (minutes)					
CBD	15	15	15	15	15
Urban	105	100	95	90	86
Short Rural	215	210	205	200	195
Indicative SAIDI standards for Ergon Energy (minutes)					
Urban	146	142	138	135	132
Short Rural	419	409	399	389	379
Long Rural	956	932	909	886	864
Indicative SAIFI standards for Energex (number of interruptions)					
CBD	0.15	0.15	0.15	0.15	0.15
Urban	1.30	1.28	1.26	1.24	1.22
Short Rural	2.46	2.42	2.38	2.34	2.30
Indicative SAIFI standards for Ergon Energy (number of interruptions)					
Urban	1.97	1.94	1.91	1.88	1.85
Short Rural	3.94	3.88	3.82	3.76	3.70
Long Rural	7.39	7.28	7.17	7.06	6.95

Source: Queensland Electricity Industry Code, Schedule 1 – Reliability Limits.

### *GSL arrangements*

The Code sets GSL that distributors must meet in relation to the quality of service received by individual customers. As shown in Table 3, GSL apply to the frequency and duration of outages and a number of other aspects of the service received by individual customers, including the timeliness of connections, reconnections and notices of planned interruptions.

Breaches of GSL require the distributor to make a payment to the affected customer, up to a cap of \$320 per customer per year, excluding wrongful disconnections (clause 2.5.15 of the Code). GSL payments vary according to the type of service involved.

**Table 3 – GSL and GSL payment scheme**

<i>Electricity Industry Code</i>	<i>GSL</i>	<i>GSL Payment*</i>
Clause 2.5.3	Wrongful disconnection	\$100
Clause 2.5.4	Connection not provided by the agreed date	\$40 per day
Clause 2.5.5	Reconnection not provided by the agreed date	\$40 per day
Clause 2.5.6	Failure to attend to customer's premises within the time required concerning loss of hot water supply	\$40 per day
Clause 2.5.7	Failure to attend appointments on time	\$40 per day
Clause 2.5.8	Notice to planned interruption to supply not given	\$20 for small residential customers and \$50 for small business customers
Clause 2.5.9	Interruption duration exceeding specified limits	\$80
Clause 2.5.9	Interruption frequency exceeding specified limits	\$80

*\*GSL payments are payable subject to the terms and conditions contained in their respective clauses under the Code.*

The dollar values of the GSL payments have remained unchanged since they were initially set on 1 January 2005 and have therefore declined in real terms over the regulatory period.

In combination, the MSS and GSL arrangements are intended to provide a minimum level of average network reliability while at the same time ensuring individual customers obtain fair and reliable quality of electricity supply.

## **1.2 Broader regulatory context**

In its *2005 Final Determination on the Regulation of Electricity Distribution*, the Authority determined the annual allowable revenue requirements for Energex and Ergon Energy based on an assessment of the costs each distributor was expected to incur in providing regulated distribution services over the regulatory period. This included costs associated with meeting MSS and GSL obligations.

Under the new provisions of the National Electricity Rules, the Australian Energy Regulator (AER) is responsible for setting the economic regulatory arrangements for Energex and Ergon Energy to apply from 1 July 2010.

Energex and Ergon Energy are currently preparing their Regulatory Proposals for submission to the AER. The Authority understands that the MSS and GSL arrangements that will apply to the distributors over the next regulatory period are critical to that process.

The Authority intends to release its Final Decision in April 2009. This should provide at least one month's notice prior to the deadline for the distributors to submit their Regulatory Proposals to the AER. The proposals contained in this Draft Decision should also provide the distributors

with an adequate level of information and confidence on which to base the preparation of their submissions to the AER in the meantime.

### **1.3 The current review**

Under clauses 2.4.4 and 2.5.19 of the Code, the Authority is required to review the MSS and GSL limits and payments to apply from the beginning of the next regulatory period commencing 1 July 2010.

Clause 2.4.4 of the Code states:

*The QCA must review the minimum service standards to apply at the beginning of each regulatory control period. The QCA must consult with distribution entities in conducting the review.*

Clause 2.5.19 of the Code states:

*The QCA must review the guaranteed service levels and GSL payment amounts to apply at the beginning of each regulatory control period.*

On 25 July 2008, the Authority released a Discussion Paper advising interested parties of the process for reviewing the MSS and GSL arrangements, and seeking comments on the scope of the review to be conducted.

The Authority received eight submissions in response to the Discussion Paper. These can be obtained from the Authority's website at [www.qca.org.au](http://www.qca.org.au).

The Authority engaged the consulting firm Evans & Peck to provide the Authority with technical advice regarding this review. The consultant's report has been published along with this Draft Decision.

### **1.4 Draft Decision**

The purpose of this Draft Decision is to outline the Authority's proposed MSS and GSL limits and payments to apply to Queensland electricity distributors from 1 July 2010 and invite stakeholders to comment on those proposals.

This Draft Decision also notifies interested parties that the Authority proposes to make some amendments to the Code to reflect its proposals for changes to the MSS and GSL limits and payments applicable to the Queensland electricity distributors.

The draft proposed amendments to the Code are contained in Annexure 1.

Submissions on this Draft Decision must be received by the Authority by the close of business 27 February 2009. The Authority will release its Final Decision in April 2009.

## 2. RECENT PERFORMANCE BY ENERGEX AND ERGON ENERGY

*Energex and Ergon Energy are required to report quarterly to the Authority on their performance against the current MSS and GSL obligations in the Code. In addition, the distributors have been reporting a range of service quality data to the Authority since 2002. The Authority has combined data from both sources to indicate the distributors' performance in relation to MSS and GSL since the start of the current regulatory period.*

### 2.1 Energex MSS performance

Table 4 presents Energex's performance against the MSS over the period from 2005-06 to 2007-08. Instances where performance has not met the standard are in bold text.

As shown in Table 4, Energex has significantly out-performed its MSS targets for the duration (SAIDI) and frequency (SAIFI) of outages in its CBD and urban areas. The key area of weakness is in parts of the Energex network supplied by short rural feeders.

**Table 4 – Energex's performance against MSS (in brackets), 2005-06 to 2007-08**

<i>Feeder Type</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
SAIDI (minutes)			
CBD	3.9 (20)	1.3 (20)	4.0 (20)
Urban	103.8 (155)	80.4 (145)	84.7 (134)
Short Rural	<b>306.4 (265)</b>	202.7 (255)	242.1 (244)
SAIFI (number of interruptions)			
CBD	0.02 (0.33)	0.02 (0.33)	0.04 (0.33)
Urban	1.41 (1.73)	1.02 (1.64)	1.05 (1.54)
Short Rural	<b>3.29 (2.77)</b>	2.33 (2.70)	<b>2.71 (2.63)</b>

### 2.2 Ergon Energy MSS performance

Table 5 presents Ergon Energy's performance against the MSS over the period from 2005-06 to 2007-08. Instances where performance has not met the standard are in bold text.

As shown in Table 5, Ergon Energy did not meet the majority of its MSS targets in 2005-06. Since then, Ergon Energy's performance against its MSS targets has improved.

**Table 5 – Ergon Energy's performance against MSS (in brackets), 2005-06 to 2007-08**

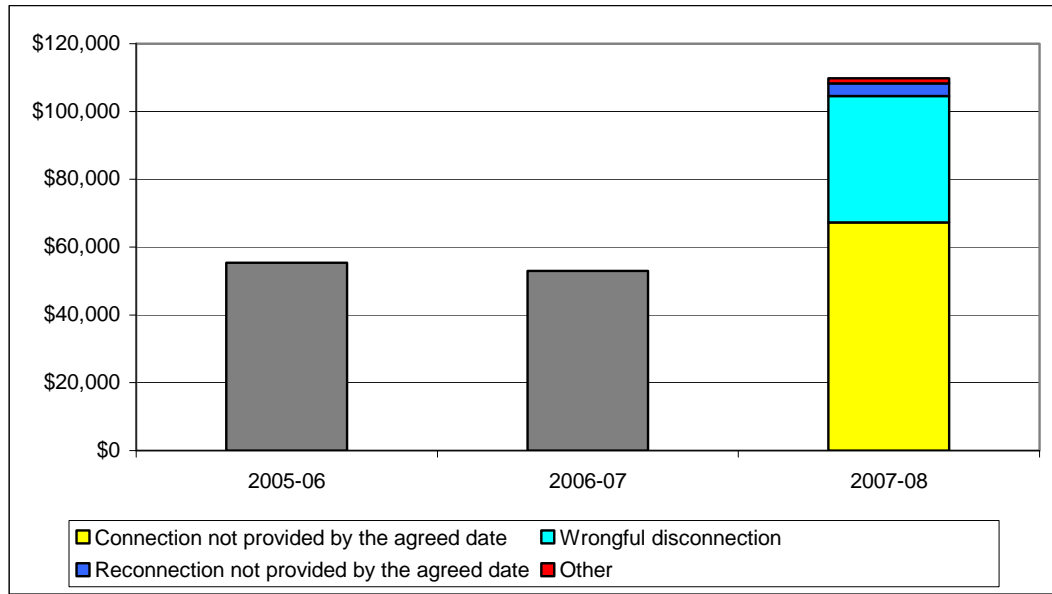
<i>Feeder Type</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
SAIDI (minutes)			
Urban	<b>219.0 (215)</b>	173.1 (205)	177.8 (195)
Short Rural	<b>594.4 (590)</b>	451.0 (570)	453.9 (550)
Long Rural	<b>1,332.0 (1,150)</b>	960 (1,130)	1,010.8 (1,090)
SAIFI (number of interruptions)			
Urban	2.26 (2.70)	1.83 (2.60)	1.85 (2.50)
Short Rural	4.97 (5.40)	3.74 (5.20)	3.49 (5.00)
Long Rural	<b>9.57 (8.75)</b>	6.65 (8.60)	6.39 (8.50)

### 2.3 Energex GSL performance

Figure 1 shows the level of GSL payments Energex has made to customers as a result of breaches of GSL over the period from 2005-06 to 2007-08. For 2007-08, the Authority has disaggregated data provided by the distributors under the Code. Prior to the commencement of the Code on 1 July 2007, GSL payments were reported pursuant to the Authority’s Guidelines, which did not require GSL payments to be classified according to the GSL type.

The data for 2007-08 indicates that the majority of GSL payments were for not making connections by the agreed date or for wrongful disconnection.

**Figure 1 – Energex GSL payments, 2005-06 to 2007-08<sup>1</sup>**



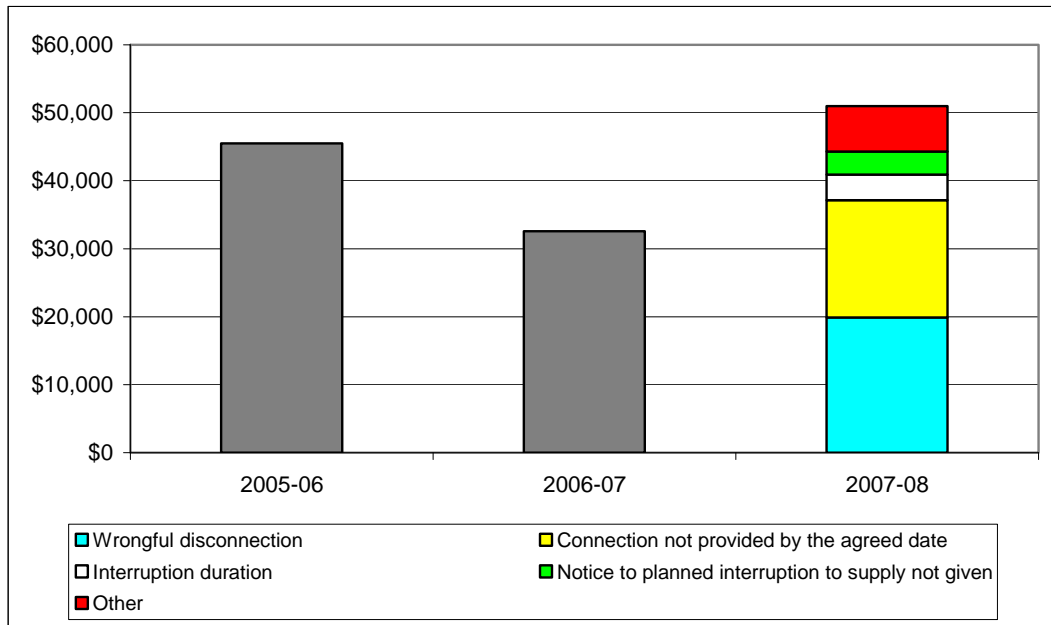
*1. Prior to the commencement of the Code on 1 July 2007, GSL payments were reported pursuant to the Authority’s Guidelines, which did not require GSL payments to be classified according to the GSL type.*

**2.4 Ergon Energy GSL performance**

Figure 2 presents the level of payments Ergon Energy has made to customers as a result of breaches to GSL over the period from 2005-06 to 2007-08.

As shown in Figure 2, GSL payments were most often made by Ergon Energy in 2007-08 for making wrongful disconnections or not making connections by the agreed date.

**Figure 2 – Ergon Energy GSL payments, 2005-06 to 2007-08<sup>1</sup>**



*1. Prior to the commencement of the Code on 1 July 2007, GSL payments were reported pursuant to the Authority's Guidelines, which did not require GSL payments to be classified according to the GSL type.*

**2.5 Other service quality performance indicators**

In its role as the economic regulator of the distribution network services provided by Energex and Ergon Energy, the Authority has collected service quality data for a number of years according to requirements of the Authority's Service Quality Reporting Guidelines.

These Guidelines require Energex and Ergon Energy to provide a range of data covering reliability, quality of supply and customer service measures. The Authority has released quarterly and annual reports on these results since the September quarter 2002. Interested parties may find these reports useful in considering the issues raised by this review.

The quarterly and annual service quality reports are available on the Authority's website.

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### 3. OBJECTIVES OF THE REVIEW

*The purpose of this review is to decide on any changes to the MSS and GSL arrangements to apply under the Code from 1 July 2010.*

*The Code provides significant discretion for the Authority to determine the scope of the review and any changes that are proposed. However, this review is limited by the intended nature and purpose of MSS and GSL, as indicated in the Code and the relevant legislation.*

*In reviewing the MSS and GSL arrangements to apply in Queensland from 1 July 2010, the Authority has considered the approaches adopted in other jurisdictions. A detailed summary of the arrangements in South Australia, New South Wales, Tasmania and Victoria was provided in the Discussion Paper.*

#### 3.1 Objectives in setting MSS and GSL arrangements

Clauses 2.4.4 and 2.5.19 of the Code require the Authority to review the MSS and GSL limits and payments to apply from the start of the next regulatory period.

These clauses do not provide any explicit requirements or limitations on the nature of the review that the Authority is to conduct, other than a requirement to consult with the distributors in relation to the MSS.

However, the potential range of options for proposing changes to the MSS and GSL is limited by the intended nature and purpose of MSS and GSL, as indicated elsewhere in the Code.

In relation to MSS, clause 2.4.1 of the Code states:

- (a) *The purpose of the minimum service standards is to:*
  - (i) *provide a standard against which a distribution entity's performance, by feeder type, will be assessed across the supply network; and*
  - (ii) *enable annual comparisons of a distribution entity's performance.*
- (b) *The minimum service standards do not constitute standards which are enforceable against a distribution entity by individual customers*

Clause 2.4.1 of the Code also indicates that MSS must be capable of being measured by feeder type.

In relation to GSL, clause 1.1.2 (c) of the Code provides a constraint by stating that the scope of the Code is to:

*..... set guaranteed service levels which require a distribution entity to provide a payment to a small customer where those service levels are not met.*

It is clear from these provisions that MSS are intended to apply to distributors' total network performance, while GSL are intended to apply to the services provided to individual small customers.

Some submissions called for the introduction of new GSL and GSL payments to apply to third parties or large customers. However, the above limitations preclude that Authority from considering or proposing amendments of this kind.

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Beyond these specific references to MSS and GSL in the Code, the only other guide to conducting this review is the overarching Code Objective contained in clause 1.1.1, which states:

*The objective of this Code is to promote efficient investment in, and efficient use of, electricity services for the long-term interests of Queensland customers about:*

- (a) *price, quality, reliability and security of supply of electricity; and*
- (b) *the reliability, safety and security of the Queensland electricity system.*

The Code Objective provides an important test against which the potential range of MSS and GSL options must be assessed. The Authority is required to ensure that any changes it proposes to the MSS or GSL arrangements will promote efficiency in the investment in and use of electricity services. The various factors outlined in the Code objective, such as price, reliability, safety and security may need to be balanced against each other in certain circumstances. For example, significantly improved service reliability may be desirable but not if the cost outweighs the benefit to customers.

### **3.2 Options considered by the Authority**

As outlined in the Discussion Paper, the Authority considered three possible options regarding the scope of this review, namely:

- (a) a minimalist review – confined to the existing MSS and GSL performance measures, without considering the introduction of additional MSS or GSL measures. The indicative MSS for 2010-11 to 2014-15, which are already contained in the Code, would be adopted and GSL payment amounts would be adjusted to maintain their real deterrence value after taking account of inflation;
- (b) an intermediate review – also confined to the existing MSS and GSL arrangements, but involving an assessment of whether to change to levels at which MSS and GSL performance targets are set. This would involve straight-forward analysis, including benchmarking against the recent performance of the distributors and the recent performance of other comparable distributors in interstate jurisdictions; and
- (c) a comprehensive review – warranted if the Authority considers that the existing MSS and GSL arrangements require significant revision, either in terms of changes to the existing performance targets and penalties or the introduction of new MSS or GSL requirements.

After considering the submissions received from interested parties, the Authority determined that an intermediate review was appropriate. The Authority has therefore conducted a wider assessment of the levels at which the MSS and GSL performance targets should be set, based on reasonably straight-forward desktop analysis.

In addition, in response to a number of suggestions by interested parties, the Authority has also conducted an assessment of whether new MSS should be introduced regarding quality of voltage supply (which would otherwise fall under the comprehensive scope of review described).

### **3.3 Arrangements in other jurisdictions**

In reviewing the MSS and GSL arrangements to apply in Queensland from 1 July 2010, the Authority has considered the approaches adopted in other jurisdictions. A detailed summary of the arrangements in South Australia, New South Wales, Tasmania and Victoria was provided in the Discussion Paper.

While each of these jurisdictions has MSS and/or GSL schemes, there are some significant differences between jurisdictions in the measures used and the levels at which MSS and GSL targets and payments have been set. This generally reflects differences in the physical characteristics of distribution networks and the environments within which they operate.

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## 4. MINIMUM SERVICE STANDARDS

*The current MSS arrangements set annual limits on the duration and frequency of distribution outages for Energex and Ergon Energy.*

*The MSS for this regulatory period generally require steady improvements in the reliability of supply provided by Energex and Ergon Energy. Reflecting the differences in their networks, MSS for Energex are more stringent than those for Ergon Energy.*

*The Code also contains ‘indicative’ MSS to apply to the distributors for each year in the next regulatory period.*

*In conducting this review, the Authority has considered whether the indicative MSS are appropriate in each instance, or whether individual SAIDI or SAIFI limits should be higher or lower for each distributor.*

*The Authority has also considered the introduction of new MSS to measure aspects of the quality of supply such as voltage and the frequency of momentary interruptions.*

### 4.1 Background to setting MSS

#### *Statistical issues*

As discussed in more detail in the Evans & Peck report, reliability performance in any period is subject to statistical variation. Therefore, 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.

On the basis of a range of work that Evans & Peck have completed in this field, their advice is that distributors should be achieving average annual reliability levels 10-15% superior to the MSS level (with even greater differences in the case of feeder types with high statistical variability such as CBD and Long Rural) if they are to keep the probability of not exceeding the MSS to manageable (but not zero) levels.

This gap must be taken into account when comparing actual performance to MSS levels, and in setting forward MSS levels as it can be mistakenly assumed that performance superior to the MSS level implies that the MSS level is “too soft” and it should be reset to a lower level to capture the performance.

#### *Interstate comparisons*

While MSS are designed to promote desired levels of reliability for Queensland distributors, in setting MSS for them consideration is given to the actual levels of reliability of, and the MSS set for, distributors in other jurisdictions, adjusted for the different operating backgrounds in the respective jurisdictions, in order to ensure that the MSS set are reasonable.

#### *Cost issues*

MSS are not costless and regard must be had for the cost to the distributors of improving MSS, particularly if too aggressive improvements in MSS are required. In addition, regard must be had for consumers’ willingness and capacity to pay, as well as the impact of MSS on the relative competitiveness of electricity tariffs in Queensland.

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## 4.2 Submissions received

Of the eight submissions received in response to the Discussion Paper, five submissions made suggestions in relation to MSS.

### *Suggested changes to the existing MSS*

The Queensland Council of Social Service (QCOSS) (2008) noted that DME conducted its own review of the MSS as recently as 2007, and suggested that significant revision of the MSS may cause detriment to the financial interests of customers. QCOSS also noted that significantly improved service reliability may be desirable, but not if the cost of improvement outweighs the benefits to customers.

QCOSS also suggested that any changes to the MSS should be based on benchmarking against recent distributor performance and the performance of similar distributors in other jurisdictions. It stated that the reliability of service provided by Energex and Ergon Energy is generally within its proper limits and that Queensland consumers are generally satisfied with the existing level of supply reliability.

The Queensland Consumers Association (2008) stressed the importance of ensuring that the MSS framework adopted forms part of a comprehensive system that protects the quality of service enjoyed by consumers. It suggested that it was important to have regard to the Service Quality Incentive Scheme (SQIS) likely to be introduced by the AER in the next regulatory period.

The Queensland Consumers Association also suggested that the results of customer willingness-to-pay surveys cannot be used as the sole measure of benefits because some important sub-sets of consumers have particular needs for certain levels of service quality.

Energex (2008) suggested a single change to the indicative MSS targets presently contained in the Code. Specifically, it suggested an adjustment to its Urban SAIDI targets so that the target is reduced by two minutes per annum from the 2009-10 targets. This would constitute a slight relaxation of the indicative Urban SAIDI targets that are currently proposed by the Code. Energex stated that this change would be justified having regard to its historical performance and in comparison to the targets of similar distributors in other jurisdictions.

Otherwise, Energex supported the adoption of the indicative MSS targets presently contained in the Code. Energex was also of the view that customers are unlikely to be willing to pay the costs of significantly improved reliability of supply.

Ergon Energy (2008) also noted that DME conducted a review of the MSS in 2007 and cautioned against placing too much reliance on comparisons with the performance of interstate distributors. It suggested that some aspects of its own network, particularly the predominantly radial nature of its long rural feeders, make it quite different to other regional distributors with which it is sometimes compared. For this reason, it suggested that any review of MSS should first consider what level of reliability is appropriate specifically for Queensland.

Ergon Energy also agreed with other submissions that any further improvements in reliability must be balanced against customers' willingness to pay. Specifically, Ergon Energy suggested that it may be unable to meet the indicative MSS presently contained in the Code without incurring significant additional costs.

Ergon Energy stated that its existing network performance improvement initiatives may only yield marginal improvements in reliability and that the significant improvements proposed by the indicative MSS, especially the SAIDI targets, would require substantial investment in

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reconfiguring its network. It suggested that consumers would, most likely, be unwilling to pay the additional costs associated with this increased reliability. Therefore, Ergon Energy concluded that indefinite improvement over time is not possible and that the existing MSS targets are approaching the level at which the required improvements should “level off”.

DME (2008) was of the view that both distributors had already accepted the indicative MSS targets presently contained in the Code and that these targets should be maintained, noting that these targets had been developed based on recent distributor performance and the performance of similar distributors in interstate jurisdictions.

#### *Suggested introduction of new MSS*

Two submissions called for the introduction of new MSS.

DME (2008) suggested that the MSS should be expanded to include quality of supply standards that relate to voltage supply and deviations of voltage. It suggested that there has been a proliferation of electrical equipment that is sensitive to disturbances in supply and this means that the present measurement of reliability in terms of interruptions is becoming inadequate. DME also noted that Victoria, South Australia and Tasmania have introduced power quality standards.

The Queensland Consumers Association (2008) supported the view that additional MSS should be introduced for other components of quality of supply, such as deviations of voltage and momentary interruptions to supply. It also suggested that standards should be introduced to measure the quality of the distributors’ complaints-handling procedures and their call centre performance.

Energex (2008) suggested that no new MSS should be introduced.

Ergon Energy (2008) was also of the view that no additional MSS should be introduced, stating that SAIDI and SAIFI continue to be the best measures for reliability, given their widespread use and acceptance as valid reliability measures.

Ergon Energy also commented on several alternative MSS used elsewhere, suggesting that CAIDI has limited use, except as a supplementary indicator, and that MAIFI cannot be introduced without first overcoming the problems associated with its implementation and the accurate measurement of momentary interruptions.

### **4.3 The Authority’s position**

The Authority agrees with the principle expressed in several submissions that improvements in the reliability of supply should only be required where the benefits of the improved reliability outweigh the associated costs to consumers. The Authority also notes concerns expressed by Ergon Energy that benchmarking new MSS targets against the performance of interstate distributors is not always appropriate, particularly in the case of Long Rural feeders.

The Authority considers that the best approach for reviewing the MSS targets involves a thorough consideration of each of the following factors:

- (a) recent distributor performance;
- (b) the performance of comparable distributors in other jurisdictions; and
- (c) customers’ willingness to pay for improved reliability.

This approach ensures that any new MSS targets will be determined after taking an appropriate mix of considerations into account. This should resolve concerns that too much emphasis may be placed on any single approach, such as benchmarking or measuring customers' willingness-to-pay.

After a thorough consideration of the issues involved and the submissions received from interested parties, the Authority considers that a number of changes should be made to the indicative MSS targets that are presently contained in the Code.

#### *Proposed MSS for Energex*

##### Energex – CBD Feeders

In their advice to the Authority, Evans & Peck noted that Energex's CBD feeders had been performing well compared to its interstate peers. Evans & Peck attributed this to Energex's large underground network, protected from the natural elements, and its ability to recover from outages within a short amount of time.

Evans & Peck recommended that the indicative SAIDI and SAIFI targets already contained in the Code for Energex's CBD feeders be maintained. These include a once-off tightening of the SAIDI and SAIFI targets for CBD feeders at the beginning of the next regulatory period. The indicative MSS reduce the SAIDI target by five minutes (a tightening of 25%) at the start of 2010-11 and the SAIFI target is reduced by 0.18 interruptions (a tightening of approximately 55%). The indicative MSS do not include any further changes during the following five years.

The Authority proposes to accept the advice of Evans & Peck and maintain the existing indicative MSS contained in the Code. Table 6 contains the SAIDI and SAIFI targets that apply to Energex's CBD feeders for the current regulatory period. Table 7 shows the indicative SAIDI and SAIFI targets for the next regulatory period presently contained in the Code, and which are proposed to be retained.

**Table 6 –MSS for 2007-08 to 2009-10 – Energex – CBD feeders**

<b>CBD feeders</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
SAIDI (minutes) - Target	20.0	20.0	20.0	20.0	20.0
SAIDI (minutes) – Actual	3.9	1.3	4.0		
SAIFI (number of interruptions) - Target	0.33	0.33	0.33	0.33	0.33
SAIFI (number of interruptions) - Actual	0.02	0.02	0.04		

**Table 7 – Proposed MSS, 2010-11 to 2014-15 – Energex – CBD feeders**

<b>CBD feeders</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012 -13</b>	<b>2013-14</b>	<b>2014-15</b>
<b>Indicative &amp; Proposed SAIDI (minutes)</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Indicative &amp; Proposed SAIFI (number of interruptions)</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>

### Energex – Urban Feeders

In its submission, Energex requested some easing of the SAIDI targets to apply to its urban feeders relative to the indicative targets currently contained in the Code. Evans & Peck agreed that the current indicative SAIDI targets were probably requiring too much improvement but did not recommend these be eased to the extent requested by Energex. Evans & Peck recommended the SAIDI targets be relaxed so that the proposed target in 2014-15 is 90 minutes rather than 86 minutes as in the current indicative targets. This still represents a tightening of approximately 15% for Energex's Urban SAIDI target over the next regulatory period.

In their report to the Authority, Evans & Peck noted that Energex has been outperforming the current MSS. However, Evans & Peck also noted that comparable interstate distributors are now achieving a SAIFI of close to 1.00 and that this was likely to be reduced further once the performance of Victorian distributors returns to previous levels. Evans & Peck therefore recommended that the indicative SAIFI targets should be tightened to provide consistency with the likely future standards of Energex's peers.

In this regard, Evans & Peck recommended that the SAIFI targets for Energex's urban feeders be tightened towards a target of 1.16 in 2014-15, compared to the current indicative target of 1.22 presently contained in the Code. This proposal represents a tightening of approximately 12% over the next regulatory period for Energex's urban SAIFI target, compared to the 8% improvement envisaged in the current indicative targets.

In line with the advice provided by Evans & Peck, the Authority proposes to relax slightly the SAIDI targets to apply to Energex's urban feeders relative to the indicative targets currently included in the Code. The Authority also proposes to tighten the SAIFI targets to apply to Energex's urban feeders.

Table 8 contains the SAIDI and SAIFI targets that apply to Energex's Urban feeders for the current regulatory period. Table 9 provides the proposed SAIDI and SAIFI targets for the next regulatory period as well as the indicative targets presently contained in the Code.

**Table 8 –MSS for 2007-08 to 2009-10 – Energex – Urban feeders**

Urban feeders	2005-06	2007-08	2007-08	2008-09	2009-10
SAIDI (minutes) - Target	155	145	134	122	110
SAIDI (minutes) - Actual	103.8	80.4	84.7		
SAIFI (number of interruptions) - Target	1.73	1.64	1.54	1.43	1.32
SAIFI (number of interruptions) - Actual	1.41	1.02	1.05		

**Table 9 – Proposed MSS, 2010-11 to 2014-15 – Energex – Urban feeders**

Urban feeders	2010-11	2011-12	2012-13	2013-14	2014-15
Indicative SAIDI (minutes)	105	100	95	90	86
<b>Proposed SAIDI (minutes)</b>	<b>106</b>	<b>102</b>	<b>98</b>	<b>94</b>	<b>90</b>
Indicative SAIFI (number of interruptions)	1.30	1.28	1.26	1.24	1.22
<b>Proposed SAIFI (number of interruptions)</b>	<b>1.26</b>	<b>1.22</b>	<b>1.20</b>	<b>1.18</b>	<b>1.16</b>

### Energex – Short Rural Feeders

In their report to the Authority, Evans & Peck noted that the recent performance of Energex's Short Rural feeders is equivalent to the performance of comparable distributors in other Australian jurisdictions. The Authority also notes that Energex slightly exceeded its Short Rural SAIFI in 2007-08.

Evans & Peck recommended that the SAIDI targets be tightened further during the next regulatory period with a one-off reduction of five minutes (approximately 2%) in 2010-11 and then maintained at this level throughout the remaining years. This represents an easing of the targets relative to the indicative targets already contained in Code which propose a five minute reduction in 2010-11 followed by further annual reductions in the following years.

The Authority notes that, while Evans & Peck were of the view that this would bring Energex in line with the current performance of its peers in other jurisdictions, it also suggested that Energex still needed to further improve its performance on these feeders but did not propose to build that improvement into the MSS.

To strike a balance between the recommendations of Evans & Peck and the intention of the indicative targets that continual improvement in Energex's SAIDI performance on its short rural feeders was feasible, the Authority proposes to reduce Energex's short rural feeder SAIDI targets by two minutes per year across the next regulatory period. This achieves around the same net improvement across the period as was proposed by Evans & Peck but does it in smaller yearly increments rather than a one-off larger reduction at the beginning of the period. This pattern of reduction is similar to that proposed in the current indicative targets but in total represents some easing of rate of improved performance expected of Energex.

This proposal represents a tightening of approximately 4.5% over the next regulatory period for Energex's Short Rural SAIDI target, compared to the 11.4% improvement envisaged in the indicative targets.

In relation to short rural SAIFI targets for Energex, Evans & Peck recommended that the current indicative targets be retained. Evans & Peck noted that Energex was struggling to meet the current standards and that the current indicative targets required sufficient further improvement over the period. Evans & Peck also indicated that the current standards are likely to be consistent with [improving] peer performance over the period.

The indicative targets tighten the SAIFI targets for Energex's Short Rural feeders by 0.04 interruptions per year over the next regulatory period. This represents a tightening of 8% over the next regulatory period.

Table 10 contains the SAIDI and SAIFI targets that apply to Energex's Short Rural feeders for the current regulatory period. Table 11 provides the proposed SAIDI and SAIFI targets for the next regulatory period, compared to the indicative targets presently contained in the Code.

**Table 10 –MSS for 2007-08 to 2009-10 – Energex – Short Rural feeders**

Short Rural feeders	2005-06	2006-07	2007-08	2008-09	2009-10
SAIDI (minutes) - Target	265	255	244	232	220
SAIDI (minutes) - Actual	306.4	202.7	242.1		
SAIFI (number of interruptions) - Target	2.77	2.70	2.63	2.56	2.50
SAIFI (number of interruptions) - Actual	3.29	2.33	2.71		

**Table 11 – Proposed MSS, 2010-11 to 2014-15 – Energex – Short Rural feeders**

<b>Short Rural feeders</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012 -13</b>	<b>2013-14</b>	<b>2014-15</b>
Indicative SAIDI (minutes)	215	210	205	200	195
<b>Proposed SAIDI (minutes)</b>	<b>218</b>	<b>216</b>	<b>214</b>	<b>212</b>	<b>210</b>
<b>Indicative &amp; Proposed SAIFI (number of interruptions)</b>	<b>2.46</b>	<b>2.42</b>	<b>2.38</b>	<b>2.34</b>	<b>2.30</b>

*Proposed MSS for Ergon***Ergon Energy – Urban Feeders**

In their report to the Authority, Evans & Peck noted that Ergon Energy’s urban feeder performance had been improving over time but that Ergon Energy’s performance still lags behind the performance of comparable interstate distributors. In relation to Ergon Energy’s concerns about benchmarking its performance against other distributors with different network topology, Evans & Peck considered this to be of less relevance in relation to urban feeders than it might be in relation to rural feeders. Nevertheless, Evans & Peck considered that the indicative targets in the Code required too much improvement and recommended slightly relaxed standards be adopted.

Evans & Peck recommended Ergon Energy’s urban SAIDI targets be set so as to require and improvement of two minutes per year over the next regulatory period, with the target in 2014-15 becoming 140 minutes rather than the indicative 2014-15 target of 132 minutes. Evans & Peck were of the view that these changes will be adequate to drive performance consistent with Ergon Energy’s peers.

This proposal represents a tightening of approximately 6.7% in Ergon Energy’s Urban SAIDI over the next regulatory period, compared to the 12% envisaged by the indicative MSS.

Evans & Peck also recommended that Ergon Energy’s SAIFI targets for urban feeders be reduced by 0.02 interruptions per year, rather than 0.03 as envisaged by the indicative targets. Evans & Peck were of the view that these slightly relaxed targets would be consistent with average performance levels by Ergon Energy’s peers.

This proposal requires a tightening of 5% in the SAIFI targets to be achieved on Ergon Energy’s urban feeders, compared to the 7.5% envisaged in the indicative MSS.

The Authority accepts the advice of Evans & Peck regarding the SAIDI and SAIFI targets to be applied to Ergon Energy’s urban feeders during the next regulatory period. The Authority considers that the slightly more gradual improvements it is proposing for Ergon Energy’s are justified having regard to likely performance in other jurisdictions and Ergon Energy’s past performance.

Table 12 contains the SAIDI and SAIFI targets that apply to Ergon Energy’s urban feeders for the current regulatory period. Table 13 provides the proposed SAIDI and SAIFI targets for the next regulatory period, compared to the indicative targets presently contained in the Code.

**Table 12 –MSS for 2007-08 to 2009-10 – Ergon Energy – Urban feeders**

Urban feeders	2005-06	2006-07	2007-08	2008-09	2009-10
SAIDI (minutes) - Target	215	205	195	180	150
SAIDI (minutes) - Actual	219	173.1	177.8		
SAIFI (number of interruptions) - Target	2.70	2.60	2.50	2.30	2.00
SAIFI (number of interruptions) - Actual	2.26	1.83	1.85		

**Table 13 – Proposed MSS, 2010-11 to 2014-15 – Ergon Energy – Urban feeders**

Urban feeders	2010 -11	2011-12	2012-13	2013-14	2014-15
Indicative SAIDI (minutes)	146	142	138	135	132
<b>Proposed SAIDI (minutes)</b>	<b>148</b>	<b>146</b>	<b>144</b>	<b>142</b>	<b>140</b>
Indicative SAIFI (number of interruptions)	1.97	1.94	1.91	1.88	1.85
<b>Proposed SAIFI (number of interruptions)</b>	<b>1.98</b>	<b>1.96</b>	<b>1.94</b>	<b>1.92</b>	<b>1.90</b>

#### Ergon Energy – Short Rural Feeders

In their report to the Authority, Evans & Peck noted that, while Ergon Energy’s performance on its short rural feeders has been improving and that it has met the MSS targets in recent years, its performance does still not compare favourably with interstate distributors. However, Evans & Peck were of the view that it would be difficult for Ergon Energy to achieve the further substantial improvements envisaged by the indicative MSS.

Evans & Peck therefore recommended some relaxation of the SAIDI and SAIFI targets for Ergon Energy’s short rural feeders compared to the indicative targets presently contained in the Code. This proposal still tightens the MSS targets for the next regulatory period compared to the targets in the current regulatory period, albeit at a slower rate.

Evans & Peck recommended that Ergon Energy’s short rural SAIDI targets be adjusted so that it is required to achieve improvements of six minutes per year over the next regulatory period, with the target in 2014-15 becoming 400 minutes rather than the indicative target of 379 minutes.

This proposal represents a reduction of approximately 7% in Ergon Energy’s short rural SAIDI over the next regulatory period, compared to the 12% envisaged by the indicative MSS.

Evans & Peck also recommended a slight relaxation in the rate of decline in Ergon Energy’s short rural SAIFI targets for the next regulatory period, recommending that these reduce by 0.05 interruptions per year, compared to the 0.06 envisaged by the indicative targets.

This proposal represents a tightening of the standards of approximately 6% in Ergon Energy’s short rural SAIFI over the next regulatory period, compared to the 7.5% envisaged in the indicative MSS.

The Authority acknowledges Ergon Energy’s view that some of the difference between Ergon Energy’s performance and its interstate peers is due to the different topology of Ergon Energy’s

network. The Authority therefore accepts the recommendations of Evans & Peck which provide some relaxation of the previously proposed indicative MSS.

Table 14 contains the SAIDI and SAIFI targets that apply to Ergon Energy's short rural feeders for the current regulatory period. Table 15 provides the proposed SAIDI and SAIFI targets to apply for the next regulatory period, compared to the indicative targets presently contained in the Code.

**Table 14 –MSS for 2007-08 to 2009-10 – Ergon Energy – Short Rural feeders**

Short Rural feeders	2005-06	2006-07	2007-08	2008-09	2009-10
SAIDI (minutes) - Target	590	570	550	500	430
SAIDI (minutes) - Actual	594.4	451.0	453.9		
SAIFI (number of interruptions) - Target	5.40	5.20	5.00	4.50	4.00
SAIFI (number of interruptions) - Actual	4.97	3.74	3.49		

**Table 15 – Proposed MSS, 2010-11 to 2014-15 – Ergon Energy – Short Rural feeders**

Short Rural feeders	2010-11	2011-12	2012-13	2013-14	2014-15
Indicative SAIDI (minutes)	419	409	399	389	379
<b>Proposed SAIDI (minutes)</b>	<b>424</b>	<b>418</b>	<b>412</b>	<b>406</b>	<b>400</b>
Indicative SAIFI (number of interruptions)	3.94	3.88	3.82	3.76	3.70
<b>Proposed SAIFI (number of interruptions)</b>	<b>3.95</b>	<b>3.90</b>	<b>3.85</b>	<b>3.80</b>	<b>3.75</b>

#### Ergon Energy – Long Rural Feeders

In their advice to the Authority, Evans & Peck were of the view that Ergon Energy's Long Rural network is extensive, unique and that "true" comparisons with interstate peers are difficult. Evans & Peck were also of the view that any proposed improvements in Ergon Energy's performance on its long rural feeders required more detailed consideration of customer willingness to pay to ensure that costs associated with those improvements were consistent with the likely benefit to customers. The Authority accepts that there are significant aspects of Ergon Energy's long rural feeder network that make it difficult or inappropriate to make direct comparisons with the performance of regional distributors in other jurisdictions.

In light of these considerations, Evans & Peck recommended a relaxation of the indicative standards for Ergon Energy's long rural SAIDI targets with the target in 2014-15 becoming 900 minutes rather than the indicative target of 864 minutes. Achieving this end point still requires an improvement of 16 minutes per year over the next regulatory period.

This proposal represents a tightening of approximately 8% in Ergon Energy's long rural SAIDI over the next regulatory period, compared to the 12% reduction envisaged by the indicative MSS.

Similarly, Evans & Peck were of the view that, given Ergon Energy's SAIFI performance on its long rural feeders and the further improvements required over the remaining years of the current regulatory period, Ergon Energy should be able to continue to achieve further improvements

over future periods but not at the rate expected by the indicative MSS. Evans & Peck therefore recommended the long rural SAIFI targets for Ergon Energy reduce by 0.10 interruptions per year, with the target in 2014-15 becoming 7.00 rather than the indicative target of 6.95.

This proposal still represents a tightening of the standard of approximately 6.7% in Ergon Energy's long rural SAIFI, compared to the 7.3% reduction envisaged by the indicative MSS

The Authority accepts the advice of Evans & Peck in relation to the proposed MSS to apply to Ergon Energy's long rural feeders over the next regulatory period. While the proposed standards are slightly less demanding than the indicative MSS currently in the Code, the Authority is of the view that these require an appropriate level of improvement consistent with the unique features of Ergon Energy's long rural network. This somewhat more gradual rate of improvement should better reflect customers' willingness to pay for improved reliability.

Table 16 contains the SAIDI and SAIFI targets that apply to Ergon Energy's long rural feeders for the current regulatory period. Table 17 provides the proposed SAIDI and SAIFI targets for the next regulatory period, compared to the indicative targets presently contained in the Code.

**Table 16 –MSS for 2007-08 to 2009-10 – Ergon Energy – Long Rural feeders**

Long Rural feeders	2005-06	2006-07	2007-08	2008-09	2009-10
SAIDI (minutes) - Target	1150	1130	1090	1040	980
SAIDI (minutes) - Actual	1332	960	1010.8		
SAIFI (number of interruptions) - Target	8.75	8.60	8.50	7.80	7.50
SAIFI (number of interruptions) - Actual	9.57	6.65	6.39		

**Table 17 – Proposed MSS, 2010-11 to 2014-15 – Ergon Energy – Long Rural feeders**

Long Rural feeders	2010-11	2011-12	2012-13	2013-14	2014-15
Indicative SAIDI (minutes)	956	932	909	886	864
<b>Proposed SAIDI (minutes)</b>	<b>964</b>	<b>948</b>	<b>932</b>	<b>916</b>	<b>900</b>
Indicative SAIFI (number of interruptions)	7.39	7.28	7.17	7.06	6.95
<b>Proposed SAIFI (number of interruptions)</b>	<b>7.40</b>	<b>7.30</b>	<b>7.20</b>	<b>7.10</b>	<b>7.00</b>

#### *Suggested introduction of new MSS*

In addition to reviewing the indicative MSS, Evans & Peck considered the benefits and costs of introducing additional MSS.

The Queensland Consumers Association (2008) suggested the introduction of a new MSS to measure momentary interruptions according to the Momentary Average Interruption Frequency Index (MAIFI). This type of MSS would seek to reduce the number of brief interruptions (less than one minute) experienced by customers.

Evans & Peck have advised that the distributors would incur significant additional costs in order to enable these interruptions to be measured at the individual customer level. These costs would

inevitably be passed on to customers. Evans & Peck were of the view that consumers would be unwilling to pay these costs in light of the expected benefits that would be provided.

The Authority concurs with this view and understands that there are technical constraints and infrastructure limitations which would inhibit the introduction of MAIFI targets at this time.

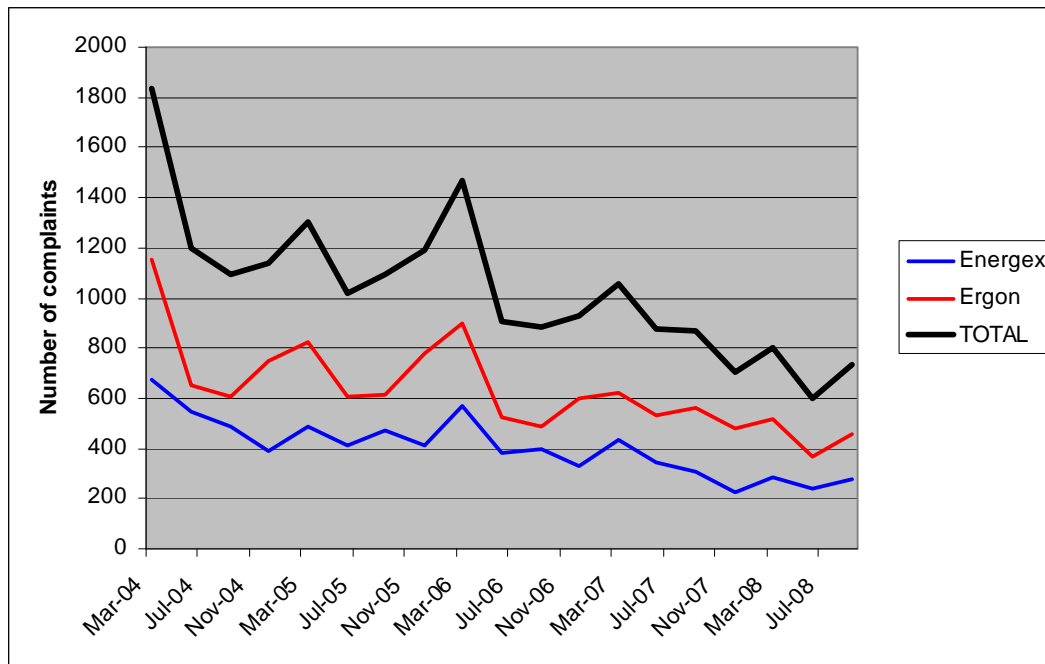
The Queensland Consumers Association (2008) and DME (2008) suggested the introduction of new MSS to measure the quality of voltage supply. They outlined a number of options in this regard, including the measurement of voltage regularity, voltage fluctuations and disturbing loads. DME noted that other jurisdictions such as Victoria and South Australia have recently introduced various types of power quality MSS.

Evans & Peck noted a number of technical issues that would make it difficult to introduce a new power quality MSS from the beginning of the next regulatory period. These include the large proportion of Single Wire Earth Return (SWER) feeders currently in use in Queensland, which have a limited load carrying capacity and are affected by exposure to the elements. Evans & Peck also noted that voltage issues can be caused by non-network activity such as environmental factors and the actions of network customers.

In light of these concerns, Evans & Peck suggested that the complexity of voltage supply issues warrants a more extensive investigation than is possible in the context of this current review.

Figure 3 shows the level of customer complaints relating to quality of supply issues that have been reported to the Authority by the distributors over the five years since 1 January 2004. It shows that the number of customer complaints relating to supply quality has been steadily decreasing.

**Figure 3 – Quality of supply complaints (quarterly) since 1 January 2004**



Complaint statistics provided by DME (2008) also show that the number of relevant customer complaints declined over the three years 2005 to 2007. Evans & Peck noted that the number of

relevant customer complaints relating to supply quality was only 0.1% of all complaints made by customers in the NEM.

Given the above, the Authority is of the view that there is not sufficient evidence to support an urgent case for introducing a new voltage supply measure in the MSS at this time. However, this matter will be investigated further when MSS are reconsidered in the lead up to the next regulatory review.

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## 5. GUARANTEED SERVICE LEVELS AND PAYMENTS

*The current GSL arrangements relate to the quality of service received by individual customers. Individual GSL apply to the frequency and duration of outages and a number of other aspects of the services received by individual small customers, including the timeliness of connections, reconnections and notifying customers of planned interruptions.*

*In certain circumstances, individual small customers become eligible for GSL payments when distributors fail to meet the GSL. It should be noted that GSL payments are not intended to be a measure of the compensation deserved by a customer for poor distributor performance. Rather, GSL payments are intended to provide a financial incentive for distributors to maintain appropriate levels of service quality.*

*Breaches of GSL require the distributor to make a payment to the affected customer, up to a cap of \$320 per customer per year, not including payments for wrongful disconnection as per clause 2.5.15(b) of the Code. GSL payments vary according to the type of service involved.*

*The existing GSL arrangements were introduced on 1 January 2005 and the GSL payment amounts have remained unchanged since then. In conducting this review, the Authority has considered whether changes should be made to existing GSL payment amounts.*

*The Authority has also considered the introduction of new GSL to measure aspects of the quality of supply such as voltage and the frequency of momentary interruptions.*

### 5.1 Background to setting GSL

GSL are intended to work in combination with the MSS to ensure that individual customers obtain fair and reliable services while an overall, minimum level of average network reliability is being achieved.

GSL provide for payments to be made by a distributor to a customer who has been affected by poor service levels. GSL therefore provide a financial incentive for a distributor to maintain an appropriate level of service quality at the individual customer level.

As discussed in more detail in the Evans & Peck report, the GSL scheme in Queensland operates similarly to the GSL arrangements in other jurisdictions. While there are some differences in each State in the GSL types, the way the GSL requirements are applied and the extent of the GSL payments made to customers, there are also some common themes.

For instance, the Evans & Peck report identifies that most GSL arrangements, including those in Queensland, focus on connection performance, the timeliness of services, reliability of supply and the provision of notice to customers for planned interruptions. Further, the levels of GSL payments are generally similar to those in Queensland, being \$20-40 per instance for lack of service and around \$80 per instance for excessive duration or frequency of interruptions.

The Evans & Peck report also notes that Energex and Ergon Energy have not made substantial payouts in GSL over the current regulatory period, although the number of payments did increase in 2007-08 due to the introduction of full retail competition and the effects of industrial action.

## 5.2 Submissions received

All of the submissions received in response to the Discussion Paper made suggestions in relation to the GSL arrangements.

### *Suggested changes to existing GSL payment amounts*

Five of the eight submissions received suggested changes be made to the current GSL payment amounts.

Four of these suggested that the existing GSL payment amounts should be increased in order to maintain their real value. Ergon Energy supported the escalation of GSL payment amounts to 2010-11 dollars to preserve their real values. Ergon Energy suggested that this escalation should be based on forecast inflation rates for the years 2008-09 through to 2010-11 and take effect as at 1 July 2010. Energex, the Queensland Consumers Association and DME supported an approach that maintained the real value of the existing GSL payment amounts by taking account of the effect of inflation.

Ergon Energy and Energex also suggested that all (escalated) GSL payment amounts should be rounded to the nearest dollar, to promote administrative simplicity.

DME suggested that any examination of the current GSL payment amounts should take into account the costs associated with customer inconvenience.

Ergon Energy, Energex and DME also suggested that GSL payment amounts should be constant across the next regulatory period, rather than increasing each year, to avoid significant administration costs.

The Sunshine Coast Regional Council suggested that the GSL payment amount for late connections under clause 2.5.4 of the Code should be raised from \$40 to \$80 (a 100% increase) for each day it is late. It also suggested that the cap on GSL entitlements under clause 2.5.15 should be raised from \$320 to \$1,000 in a financial year, in order to more adequately compensate customers for the real costs of the inconvenience of poor service.

The Sunshine Coast Regional Council also suggested that a longer period of time should be allowed for customers to make a GSL claim under clause 2.5.11(b) of the Code. It suggested that the current period of 20 business days should be increased to 40 business days. It further suggested that a deadline should be introduced to require distributors to process a GSL claim after a claim is received from a customer. It suggested that 20 business days was appropriate in this instance.

The Queensland Consumers Association suggested that GSL payments should be paid automatically by distributors and not impose the obligation and associated costs on the affected consumer. However, the Authority notes that in these cases the existing GSL arrangements already require distributors to use their best endeavours to automatically make GSL payments to affected customers (clause 2.5.11(a) of the Code).

### *Suggested introduction of new GSL measures*

Overall there was not a lot of support for the introduction of new categories of GSL. Ergon Energy, DME, Energex and QCOSS all suggested that no changes should be made to the existing range of GSL, on the basis that this could potentially dilute the focus on the main elements of providing quality distribution services.

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Some suggested changes were beyond the scope of this review. For example, the Electrical and Communications Association suggested the introduction of a new GSL to compensate building industry participants (such as builders and electricity contractors) for the failure of distributors to complete capital works on time. It also suggested the inclusion of building industry participants in the definition of a ‘consumer’ for the purposes of the broader GSL arrangements.

The Urban Development Institute of Australia suggested the introduction of a new GSL to compensate for delays in the completion of development work.

However, clause 1.1.2 (c) of the Code limits the scope of the GSL arrangements to:

*..... set guaranteed service levels which require a distribution entity to provide a payment to a small customer where those service levels are not met.*

The definition of a small customer, which would preclude the suggestions above, is used consistently throughout the Code, the *Electricity Act 1994* and the *Electricity Regulation 2006*. The Authority considers that wider legislative changes would be required to introduce GSL that apply to large customers or other third parties and that such changes are beyond the scope of this review.

In addition, the Queensland Consumers Association suggested the introduction of a new GSL to be paid by retailers rather than distributors. It suggested a GSL payment to be applied to retailers who fail to provide a certain level of quality of service to customers, including by their call centres, and particularly in relation to customer disconnections. However, the scope of this review is limited to considering the GSL arrangements faced by distributors.

The Sunshine Coast Regional Council suggested the introduction of new GSL that relate to the incorrect assignment of the tariff requested by the customer during the initial connection and the incorrect assignment of the Transmission Network Code by distributors.

### **5.3 The Authority’s position**

#### *GSL payment amounts*

There was general support in submissions for the level of GSL payments to be increased at least in line with inflation. The Authority is of the view that this is appropriate in order to maintain the financial incentives intended in the original GSL arrangements. If left unchanged, the deterrent value of the GSL payment amounts would erode further over the next regulatory period.

The Authority also accepts the suggestions that the new GSL payment amounts be rounded to the nearest whole dollar to promote administrative simplicity.

To escalate payments amounts to reflect inflation, Evans & Peck recommended an approach focusing on the effect of inflation as at the middle of the next regulatory period.

The Authority agrees with Evans & Peck that the most appropriate approach to escalating payment amounts in line with inflation is to measure the effect of inflation up until the middle of the next regulatory period (31 December 2012) so that, on average over the next regulatory period, the nominal GSL penalty will be equal to the real deterrent value as envisaged in the original legislation. The Authority notes that the existing GSL payment amounts were introduced on 1 January 2005 and the have remained unchanged since then. The appropriate inflation adjustment will therefore be one which recognises the impact of inflation from 1 January 2005 through to the end of the current regulatory period and then from that point to the middle of the next regulatory period. The Authority therefore considers that it is appropriate to

escalated payment amounts to reflect the impact of inflation from 1 January 2005 until 31 December 2012.

Evans & Peck also suggested that the price of network services has generally been increasing at a faster rate than inflation and that some additional increase (above inflation) may therefore be warranted. However, the Authority considers that it is sufficient to consider the effects of inflation in order to preserve the deterrent value of the existing GSL payment amounts. Any consideration of real increases in the price of network services could be misleading without an accompanying assessment of whether there have been real increases in the cost of providing those network services.

Regarding the suggestion by the Sunshine Coast Regional Council to increase the existing GSL payment amounts by 100% and to increase the cap from \$320 to \$1,000, the Authority considers that the financial deterrents provided by the existing GSL arrangements will be adequate so long as these are not allowed to erode over time due to the effect of inflation.

According to the Reserve Bank of Australia, the consumer price index (CPI) was 2.5% in 2004-05, 4.0% in 2005-06, 2.1% in 2006-07 and 4.5% in 2007-08. Inflation is projected by the Reserve Bank to be approximately 3.0% for the current financial year and to return to 2.5% (the mid-point of the Reserve Bank's target range) in 2009-10. Assuming that CPI remains at that mid-range level over the 2.5 years of the first half of the next regulatory period, then the required inflation adjustment would be an increase in payment amounts of 26.18%.

Given the uncertainty that surrounds forward estimates of the CPI, the fact that the estimates are at the lower end of the possible range of outcomes and the fact that the levels will be set for five years, the Authority proposes to escalate the level of GSL payments by 30.0% in order to account for the impact of inflation on the deterrent value of the GSL arrangements.

The proposed GSL payment amounts to apply to distributors in the next regulatory period are contained in Table 18:

**Table 18 – Proposed GSL and GSL payment scheme**

<i>Electricity Industry Code</i>	<i>GSL</i>	<i>Current GSL Payment* for 2007-08 to 2009-10</i>	<i>Proposed GSL Payment* for 2010-11 to 2014-15</i>
Clause 2.5.3	Wrongful disconnections	\$100	<b>\$130</b>
Clause 2.5.4	Connection not provided by the agreed date	\$40 per day	<b>\$52</b> per day
Clause 2.5.5	Reconnection not provided by the agreed date	\$40 per day	<b>\$52</b> per day
Clause 2.5.6	Failure to attend to customer's premises within the time required concerning loss of hot water supply	\$40 per day	<b>\$52</b> per day
Clause 2.5.7	Failure to attend appointments on time	\$40 per day	<b>\$52</b> per day
Clause 2.5.8	Notice to planned interruption to supply not given	\$20 for small residential customers and \$50 for small business customers	<b>\$26</b> for small residential customers and <b>\$65</b> for small business customers
Clause 2.5.9	Interruption duration exceeding specified limits	\$80	<b>\$104</b>
Clause 2.5.9	Interruption frequency exceeding specified limits	\$80	<b>\$104</b>

\*GSL payments are payable subject to the terms and conditions contained in their respective clauses under the Code.

In line with the increases in individual payment amounts, the Authority proposes to increase the overall cap on entitlements for individual small customers by 30.0% from \$320 per annum to \$416 per annum (excluding GSL payments for wrongful disconnections).

*New GSL measures*

In their advice to the Authority, Evans & Peck suggested that the existing arrangements in Queensland are in line with or comparable to those applying in other jurisdictions.

Overall, submissions did not propose significant changes to the existing GSL arrangements. Three submissions suggested that no changes should be made to the existing range of GSL on the basis that it might dilute the current focus on the main elements of providing quality distribution services.

As discussed earlier, the scope of this review precludes the Authority from considering some changes proposed in submissions, such as the addition of new GSL to provide compensation to building industry participants or developers.

The Authority considers that the current GSL arrangements provide an appropriate framework to encourage satisfactory performance in the important aspects of network reliability and customer service. As the current GSL arrangements were only introduced three years ago, and in the absence of strong arguments for change, the Authority does not propose to introduce any new GSL measures to apply during the next regulatory period.

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**6. REFERENCES**

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Urban Development Institute of Australia (2008), *Submission to the Queensland Competition Authority's Discussion Paper on the Review of the Electricity Distribution Network Minimum Service Standards and Guaranteed Service Levels to Apply in Queensland from 1 July 2010*.

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## 7. ANNEXURE 1 – PROPOSED AMENDMENTS TO THE CODE

This Annexure contains a draft of the amendments that the Authority proposes to make to the Electricity Industry Code (the Code) in order to reflect its proposals for changes to the MSS and GSL arrangements applicable to Energex and Ergon Energy in the next regulatory period commencing on 1 July 2010.

This Annexure is a “draft of the proposed amendments to the Code” for the purposes of section 222K(1)(b) of the *Electricity Regulation 2006* (the Regulation).

This Draft Decision – *Review of Electricity Distribution Network Minimum Service Standards and Guaranteed Service Levels to apply in Queensland from 1 July 2010* – is a “draft report about the material issues” for the purposes of section 222K(1)(a) of the Regulation. It also contains written notice of the final consultation process to be conducted by the Authority for the purposes of section 222L of the Regulation.

The following paragraphs contain the draft amendments to the Code proposed by the Authority:

### 7.1 Code front cover

On the front cover of the Code:-

- (i) Replace “Fourth Edition: made 31 July 2008” with “Fifth Edition: made [relevant date] April 2009”.
- (ii) Replace “effective 4 August 2008” with “effective [relevant date] May 2009”.

### 7.2 Code inside cover

Inside the front cover of the Code:-

- (i) Replace “This Fourth Edition” with “This Fifth Edition”.
- (ii) Un-bold the words “31 July 2008” and “4 August 2008” in the second and third columns respectively of the fifth row of the table titled Amendment History.
- (iii) Add an additional row to the end of the table titled Amendment History and insert “5” in the first column, insert “[relevant date] April 2009” in the second column, and insert “[relevant date] May 2009” in the third column.

### 7.3 Clause 2.5.3 Wrongful disconnection

In sub-clause 2.5.3(a) of the Code:-

- (i) Replace “GSL payment of \$100” with “GSL payment of \$130”.

### 7.4 Clause 2.5.4 Connections

In clause 2.5.4 of the Code:-

- (i) Replace “GSL payment of \$40” with “GSL payment of \$52”.

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**7.5 Clause 2.5.5 Customer reconnection**

In clause 2.5.5 of the Code:-

- (i) Replace “*GSL payment of \$40*” with “*GSL payment of \$52*”.

**7.6 Clause 2.5.6 Hot Water Supply**

In clause 2.5.6 of the Code:-

- (i) Replace “*GSL payment of \$40*” with “*GSL payment of \$52*”.

**7.7 Clause 2.5.7 Appointments**

In sub-clause 2.5.7(e) of the Code:-

- (i) Replace “*GSL payment of \$40*” with “*GSL payment of \$52*”.

**7.8 Clause 2.5.8 Planned Interruptions for small residential customers**

In sub-clause 2.5.8(a)(i) of the Code:-

- (i) Replace “\$20 in the case of *small residential customers*; and” with “\$26 in the case of *small residential customers*; and”.

**7.9 Clause 2.5.8 Planned Interruptions for small business customers**

In sub-clause 2.5.8(a)(ii) of the Code:-

- (i) Replace “\$50 in the case of *small business customers*” with “\$65 in the case of *small business customers*”.

**7.10 Clause 2.5.9 Reliability**

In sub-clause 2.5.9(a) of the Code:-

- (i) Replace “*GSL payment of \$80*” with “*GSL payment of \$104*”.

**7.11 Clause 2.5.15 Caps on entitlements**

In sub-clause 2.5.15(a) of the Code:-

- (i) Replace “more than \$320 worth of *GSL payments*” with “more than \$416 worth of *GSL payments*”.

## 7.12 Code Schedule 1 – Reliability Limits

In Schedule 1 of the Code, titled **Reliability Limits**, in the Notes below the tables contained on page 125 of the Code:-

- (i) Replace “Notes:” with “Note:”
- (ii) Delete the Note “1 *SAIDI Limits, SAIFI Limits (and CAIDI Limits)* shown for 2010/11 to 2014/15 are indicative and subject to change following future reviews of the *minimum service standards*.”
- (iii) For the remaining Note, replace its number “2” with the number “1”.

In Schedule 1 of the Code, titled **Reliability Limits**, in part 1 titled *SAIDI Limits*, in the table titled **1.1 ENERGETEX**, in the last five columns, which relate to the financial years from 2010/11 to 2014/15:-

- (iv) Un-shade the last five columns.
- (v) In the row titled ‘urban’, replace the numbers:
 

105	100	95	90	86
with the numbers:				
106	102	98	94	90
- (vi) In the row titled ‘short rural’, replace the numbers
 

215	210	205	200	195
with the numbers:				
218	216	214	212	210

In Schedule 1 of the Code, titled **Reliability Limits**, in part 1 titled *SAIDI Limits*, in the table titled **1.2 Ergon Energy**, in the last five columns, which relate to the financial years from 2010/11 to 2014/15:-

- (vii) Un-shade the last five columns.
- (viii) In the row titled ‘urban’, replace the numbers:
 

146	142	138	135	132
with the numbers:				
148	146	144	142	140
- (ix) In the row titled ‘short rural’, replace the numbers:
 

419	409	399	389	379
with the numbers:				
424	418	412	406	400
- (x) In the row titled ‘long rural’, replace the numbers:
 

956	932	909	886	864
with the numbers:				
964	948	932	916	900

In Schedule 1 of the Code, titled **Reliability Limits**, in part 2 titled *SAIFI Limits*, in the table titled **2.1 ENERGETEX**, in the last five columns, which relate to the financial years from 2010/11 to 2014/15:-

- (xi) Un-shade the last five columns.
- (xii) In the row titled ‘urban’, replace the numbers:
 

1.30	1.28	1.26	1.24	1.22
with the numbers:				
1.26	1.22	1.20	1.18	1.16

In Schedule 1 of the Code, titled **Reliability Limits**, in part 2 titled **SAIFI Limits**, in the table titled **2.2 Ergon Energy**, in the last five columns, which relate to the financial years from 2010/11 to 2014/15:-

- (xiii) Un-shade the last five columns.
- (xiv) In the row titled 'urban', replace the numbers: 1.97 1.94 1.91 1.88 1.85  
with the numbers: 1.98 1.96 1.94 1.92 1.90
- (xv) In the row titled 'short rural', replace the numbers: 3.94 3.88 3.82 3.76 3.70  
with the numbers: 3.95 3.90 3.85 3.80 3.75
- (xvi) In the row titled 'long rural', replace the numbers: 7.39 7.28 7.17 7.06 6.95  
with the numbers: 7.40 7.30 7.20 7.10 7.00

In Schedule 1 of the Code, titled **Reliability Limits**, in part 3 titled **CAIDI Limits (interpretive only)**, in the table titled **3.1 ENERGEX**, in the last five columns, which relate to the financial years from 2010/11 to 2014/15:-

- (xvii) Un-shade the last five columns.
- (xviii) In the row titled 'urban', replace the numbers: 81 78 75 73 70  
with the numbers: 84 84 82 80 78
- (xix) In the row titled 'short rural', replace the numbers: 87 87 86 85 85  
with the numbers: 89 89 90 91 91

In Schedule 1 of the Code, titled **Reliability Limits**, in part 3 titled **CAIDI Limits (interpretive only)**, in the table titled **3.2 Ergon Energy**, in the last five columns, which relate to the financial years from 2010/11 to 2014/15:-

- (xx) Un-shade the last five columns.
- (xxi) In the row titled 'urban', replace the numbers: 74 73 72 72 71  
with the numbers: 75 74 74 74 74
- (xxii) In the row titled 'short rural', replace the numbers: 106 105 104 103 102  
with the numbers: 107 107 107 107 107
- (xxiii) In the row titled 'long rural', replace the numbers: 129 128 127 125 124  
with the numbers: 130 130 129 129 129