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15 August 2008

Mr EJ Hall  
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Dear Mr Hall

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

Ergon Energy Corporation Limited (Ergon Energy) is pleased to make this submission to the Queensland Competition Authority (QCA) in response to the QCA's discussion paper on its Review of Electricity Distribution Network Minimum Service Standards and Guaranteed Service Levels to apply from 1 July 2010.

Ergon Energy is requesting that the QCA's review be expedited so it can be completed no later than December 2008 to align with the Queensland Distribution Network Service Providers preparing their Regulatory Proposals for the 2010-15 regulatory control period.

In respect of the scope of the review, Ergon Energy is requesting that the QCA undertake an intermediate review of the MSS indicative targets. Alternatively, if a review of all indicative MSS targets is not supported, Ergon Energy requests that SAIDI targets be reviewed as a priority.

Ergon Energy looks forward to continuing to work with the QCA in its Review of Network Minimum Service Standards and Guaranteed Service Levels.

Please do not hesitate to contact me or Carmel Price, Manager Regulatory Affairs Network Regulation on (07) 41219545 should you wish to discuss this submission in any way.

Yours sincerely

  
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**Ergon Energy Corporation Limited**  
**Discussion Paper – Review of Electricity  
Distribution Network Minimum Service  
Standards and Guaranteed Service Levels to  
Apply in Qld from 1 July 2010**  
– Submission  
Queensland Competition Authority  
15 August 2008

## Discussion Paper

# “Review of Electricity Distribution Network Minimum Service Standards and Guaranteed Service Levels to Apply in Queensland from 1 July 2010”

## Ergon Energy Submission

## Queensland Competition Authority

15 August 2008

This submission, which is available for publication, is made by:

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# 1 Introduction

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Queensland Competition Authority (QCA) on its “Discussion Paper - Review of Electricity Distribution Network Minimum Service Standards and Guaranteed Service Levels to Apply in Queensland from 1 July 2010” (the Discussion Paper).

This submission is provided by Ergon Energy in its capacity as an electricity distribution network service provider in Queensland. The comments made in this submission in respect to Minimum Service Standard targets relate to those targets as they apply to Ergon Energy only.

Ergon Energy would be pleased to discuss this submission with the QCA and to provide further information should the QCA require.

# 2 Background

Minimum Service Standards (MSS) and Guaranteed Service Levels (GSL) were introduced into Queensland with the commencement of the first edition of the Electricity Industry Code (EIC) in January 2005.

The EIC was developed partly in response to the Queensland Government’s review (the EDSD Review) of Queensland’s distribution networks which included an assessment of reliability. A key recommendation from the EDSD Review was:

*Government mandate minimum network service standards for ENERGEX and Ergon Energy to ensure that their capital, operating and maintenance expenditure is focussed on delivering both service reliability and financial outcomes. Government should investigate the use of distribution codes and the use of standard customer contracts, as employed in other states, to achieve this outcome;<sup>1</sup>*

In 2007 the Queensland Department of Mines and Energy (DME) undertook a review of the MSS. As part of its review the DME examined:

- Use of feeder categories for reporting supply reliability;
- Recent performance of distributors against MSS;
- Reporting by geographic regions;
- MSS targets for the period 2010 - 2015;
- Quality of supply measures and standards;
- Calculation of Major Event Days;
- Demand management standards; and
- Security of supply standards.

The current review by the QCA is required under the EIC. The EIC provides that a review of the MSS, the GSL and GSL payment amounts to apply be undertaken at the beginning of each regulatory control period<sup>2</sup>. The EIC does not prescribe how the QCA

<sup>1</sup> Electricity Distribution and Service Delivery for the 21<sup>st</sup> Century, July 2004, page 57.

<sup>2</sup> Clauses 2.4.4 and 2.5.19.

must conduct the reviews, except in respect of the MSS, which requires the QCA to consult with the distribution entities<sup>3</sup>.

### 3 Key Issues

In addition to its response to the Discussion Paper questions in section 4 of this submission, Ergon Energy has identified the following key issues in relation to the current review.

- **Timing for the review**

As the QCA is aware, Ergon Energy is currently preparing for its first distribution determination under the new provisions of Chapter 6 of the National Electricity Rules for the regulatory control period 2010-15.

Ergon Energy is required to submit its Regulatory Proposal to the Australian Energy Regulator (AER) by 31 May 2009<sup>4</sup>. The capital and operational expenditure forecasts to be used in developing the Regulatory Proposal need to take into account the MSS and GSLs that will apply for the next regulatory control period. This means that the MSS and GSLs will need to be set considerably in advance of this deadline to enable forecasts and programs of work to be prepared.

The Discussion Paper includes an indicative timetable for the QCA's review which incorporates a Discussion Paper, draft decision and final decision by 19 February 2009. Ergon Energy therefore strongly suggests that the QCA's review be expedited such that it can be fully completed no later than December 2008.

It is not clear from the Discussion Paper whether the indicative timetable incorporates a formal EIC change process pursuant to clause 1.1.7 of the EIC. Ergon Energy requests that, if it has not already done so, the QCA factor the time required for any EIC changes into its work program.

- **Scope of past reviews of MSS targets**

Ergon Energy notes that, to date, there has been no comprehensive or jurisdiction specific review of what constitutes the appropriate level of reliability in Queensland. Previous reviews have examined performance of interstate peers, and the service standards set for these peers but have not sought to identify what is the appropriate level of reliability in Queensland with reference to our unique network topology and customers' reasonable expectations and willingness to pay.

The Essential Services Commission of South Australia (ESCOSA) and the Essential Services Commission of Victoria (ESCV) have recently conducted reviews of the service standards to apply in their jurisdictions.

<sup>3</sup> Clause 2.4.4.

<sup>4</sup> However Ergon Energy will need to have completed its Regulatory Proposal for its Board's approval in March 2009, with final forecasts and programs of work decided by January 2009.

ESCOSA, in its review of the service standards to apply in the 2010-15 period, undertook the threshold step of examining whether ETSA Utilities should be required to improve or maintain, or even reduce, the underlying average performance. To assess this, ESCOSA had regard to customer surveys and customer complaint data in order to understand customers' willingness to pay for improved levels of service reliability.<sup>5</sup>

The ESCV examined existing studies on the value that electricity consumers place on the quality of electricity services, including 'direct cost' studies and 'willingness to pay' studies. Importantly, ESCV noted that:

*The objective of an incentive scheme for service reliability is to motivate distributors to invest in improving service quality up to (but not beyond) the point at which the rising cost of improving service reliability equals the declining willingness of consumers to pay for improvements in service reliability'.<sup>6</sup>*

In their respective reviews, both ESCOSA and the ESCV considered the appropriate level of reliability as a threshold issue. Based on the findings of the survey and the low levels of customer complaints, ESCOSA found there was no compelling evidence to suggest that customers in South Australia are seeking improvement in the reliability of their electricity supply.<sup>7</sup> In its Final Decision, the ESCV also concluded that it has received little indication that customers value further improvements in average reliability levels.<sup>8</sup>

Ergon Energy considers it imperative that the threshold questions of:

- balancing costs of further improvements against customers' willingness to pay; and
- determining the optimal standard to 'maintain' (i.e. the point at which to flat-line targets)

be addressed to ensure that investment in reliability is at an appropriate level and customers' reasonable expectations and requirements are targeted.

<sup>5</sup> ESCOSA, Draft Decision Services Standards to apply to ETSA Utilities in the 2010 – 2015 Regulatory Period', page 37.

<sup>6</sup> Essential Services Commission, Victoria, 'Electricity Distribution Price Review 2006 – Service Incentive Arrangements Consultation Paper No.2', April 2004, page 27.

<sup>7</sup> ESCOSA, Draft Decision Services Standards to apply to ETSA Utilities in the 2010 – 2015 Regulatory Period', page 40.

<sup>8</sup> Essential Services Commission, Victoria, 'Electricity Distribution Price Review 2006 – Final Decision' , page 23 – 24.

## 4 Ergon Energy Response to Discussion Paper Questions

QCA: Which of the three review options discussed should the Authority adopt?

Ergon Energy **supports** a review of the following aspects of the current MSS and GSL regime:

- All indicative MSS targets for 2010-15 or alternatively indicative MSS targets for SAIDI for 2010-15; and
- GSL payment amounts.

This is closest to the QCA's "intermediate review". Ergon Energy's reasons for a review of these aspects only, are set out below.

- **Indicative MSS targets for 2010-15**

As noted in section 3 above, a comprehensive and jurisdiction specific review of the appropriate level of reliability for Queensland has not previously been undertaken.

The indicative MSS targets in the EIC for the period 2010-15 were derived by applying a trend line to reach a target for these outer years. The targets were set based on SAIDI improvements across all feeder categories of 2.5 percent, and SAIFI improvements across all feeder categories of 1.5 percent.

Ergon Energy understands that the targets were meant to be indicative only and set to provide a degree of certainty for these outer years. No in-depth analysis was undertaken at the time to determine whether these targets would result in the appropriate level of reliability, and importantly an appropriate level of expenditure to attain the targets for Queensland customers.

Ergon Energy's experience in operating and reporting under the current MSS is that, the indicative targets are no longer appropriate and require review, particularly in respect of SAIDI (refer response below regarding reasons for changing indicative MSS). Ergon Energy therefore **supports** a review of MSS targets to apply for the 2010-15 period.

Alternatively, if a full review of all indicative targets is not supported, Ergon Energy considers that the review of the indicative targets for SAIDI should be undertaken as a priority (refer response below regarding reasons for reviewing indicative targets for SAIDI).

- **GSL payment amounts**

Ergon Energy considers that a review of the GSL payment amounts is appropriate given they have not been reviewed since 1 January 2005. Ergon Energy **supports** a review of the GSL payment amounts only to ensure that the GSL payment amounts continue to provide the appropriate incentive to distributors to target the service quality measures covered by the GSLs.

Ergon Energy **does not support a review** of the following aspects of the regime:

- MSS and GSL measures;
- Reporting categories;
- Methodology for calculating MSS; and
- Methodology for determining Major Event Days.

Ergon Energy's reasons are set out below.

- **MSS and GSL measures**

Ergon Energy considers that the current MSS and GSL measures are appropriate and do not require further review.

Ergon Energy considers that SAIDI and SAIFI continue to be the best measures for reliability given their widespread use and acceptance as valid reliability measures. DME's 2007 review considered other 'reliability' measures such as CAIDI and MAIFI. DME concluded that CAIDI, as a derived measure, is more appropriately included as a supplemental indicator rather than an MSS. In respect of MAIFI, DME concluded that there was little benefit in introducing MAIFI given significant issues surrounding the establishment and auditing of accurate counts of interruptions for MAIFI or MAIFLe.

Ergon Energy **does not support** the inclusion of other performance measures in the EIC at this time. A national framework (including standards and measures) for reporting against performance measures other than reliability has not yet been finalised. As such, the introduction of other performance measures is problematic at this time given the lack of consistent definitions and available and accurate historical data.

In this context, Ergon Energy also notes that the AER has specifically excluded other performance measures (such as quality of supply) from its national Service Target Performance Incentive Scheme (STPIS).

The GSL measures currently contained in the EIC cover the key aspects of customer service. Ergon Energy considers that the measures continue to be relevant in terms of targeting customer expectations in respect of the main elements of a quality electricity distribution service. As such, Ergon Energy **does not support** changing the current measures or broadening the range of measures as this could potentially dilute the focus on current GSL measures.

- **Reporting categories**

Ergon Energy **does not support** a review of the existing feeder categories of Urban, Short Rural and Long Rural. This aspect of the MSS was considered as part of DME's 2007 review. It concluded that reporting against existing feeder categories remains the most appropriate and practical method to report supply reliability. Ergon Energy notes that this is consistent with the national standard for reporting on distribution reliability.

- **Methodology for calculating MSS**

Ergon Energy **does not support** a review of the current and accepted methodologies for calculating SAIDI and SAIFI. These methodologies are appropriate and have been adopted and operationalised within the business.

- **Methodology for determining Major Event Days**

The DME's 2007 review considered the existing methodology for determining a major event day. In its submission, Ergon Energy noted:

*Ergon Energy agrees with the DME that the existing Major Event Day (MED) methodology as prescribed in the Code should remain unchanged. The current prescription represents the method most in line with international practice based on the IEEE standard and as such offers the best opportunity for performance comparability between international DNSPs.<sup>9</sup>*

DME concluded that the methodology remains appropriate. Furthermore, the AER has now adopted the same methodology for its national STPIS.

Ergon Energy concurs, and **does not support** a review of the existing methodology for determining a major event day.

QCA: *If none, what other review option(s) should the Authority consider?*

Refer response above.

Ergon Energy **supports** a review of indicative MSS targets for 2010-15 and GSL payment amounts which is most closely aligned to the QCA's "intermediate review".

<sup>9</sup> Ergon Energy, 'Minimum Service Standards Review – Submission, Department of Mines and Energy', 16 March 2007, page 12.

QCA: What reason(s), if any, are there for changing the indicative MSS in the Code for 2010-11 to 2014-15 and the existing GSL limits and penalties in the Code?

- **Indicative MSS targets for 2010 - 2015**

As noted in section 3 above, there have been no comprehensive or jurisdiction specific reviews of what constitutes the appropriate level of reliability in Queensland.

Ergon Energy's experience from operating and reporting under the current MSS targets is:

- A step change improvement in average reliability performance (as envisaged by the 2009-10 SAIDI targets and carried through the indicative targets for 2010-15) from current levels will require significant investment in the network; and
- There is no evidence that customers are willing to pay for these improvements to average reliability standards.

Network performance is largely a function of the network topology, which in Ergon Energy's case is predominantly radial and highly exposed to the elements due to the vast extent of the network.<sup>10</sup>

While Ergon Energy has network performance improvement initiatives in place, current indications are that these initiatives will only have a marginal impact on the overall network performance. More substantial improvement, as required by the indicative MSS targets, is likely to require a reconfiguration of the network (i.e. a shift towards a predominantly 'meshed' network with additional asset redundancy) that would involve substantial resources and investment.

Ergon Energy raised these concerns with the indicative MSS targets during the DME's 2007 review. Ergon Energy noted:

*Ergon Energy appreciates the DME's desire to drive continual improvement in network reliability performance through the use of decreasing SAIDI & SAIFI MSS targets. However, the DME should appreciate that continual improvement in reliability performance will require increasing expenditure by Ergon Energy which is likely to result in increased charges to customers. Ergon Energy suggests that the DME should ascertain the customer's willingness to pay increased charges before making significant changes to the MSS targets....Ergon Energy believes that it will be increasingly challenging to meet*

<sup>10</sup> 35% of Ergon Energy's customers are supplied radially from the transmission connection point. This is significantly higher than for Country Energy (at 20% radial supply) with which Ergon Energy is often compared. The radial nature of Ergon Energy's network is evident in the long rural category. The category is effectively a 'catch all' for all feeders greater than 200kms in length. For Ergon Energy there are 136 feeders with an average length of 540kms. This category represents approximately 66% of the high voltage power lines that Ergon Energy operates but supplies approximately 11% of the customers connected to the network

*the existing targets, especially during the final two years of the current MSS period....<sup>11</sup>*

*Ergon Energy ...has misgivings regarding the method the DME has adopted for setting these future targets which seems to assume indefinite network performance improvement is achievable. Ergon Energy believes this is not a realistic approach and provides the following comments...:*

- The existing infrastructure has in-built performance limitations that cannot generally be exceeded and the best long-term performance solution will involve a wholesale re-think of the type, methods and structure of electricity distribution in QLD;*
- The nature of weather patterns in Queensland mean that network performance is impacted by the severity of the storm season in any given year. This means that actual network performance is likely to vary markedly from year to year both above and below any MSS targets that might be set.<sup>12</sup>*

In summary, Ergon Energy considers that its current reliability performance is reaching a level which is indicative of an extensive radial topology. In particular, it considers that further step change improvements to meet the declining (i.e. more stringent) SAIDI targets are unlikely without substantial further investment in network infrastructure.

Given this, Ergon Energy **supports** the QCA undertaking a review of the indicative MSS targets. Furthermore, Ergon Energy believes such a review should consider at what point the MSS performance targets should 'level off', and remain constant as has occurred in South Australia and Victoria.

As noted above, if a full review of the indicative MSS targets is not supported, Ergon Energy considers that the review of the indicative targets for SAIDI should be undertaken as a priority as step change improvements in these categories are unlikely without substantial further investment in network infrastructure.

- **Existing GSL limits**

Ergon Energy recognises that the current GSL payment levels have not been reviewed since their inception in 2005.

As noted above, Ergon Energy **supports** a review of the GSL payment amounts to ensure that the GSL payment amounts continue to provide the appropriate incentive to distributors to target the service quality measures covered by the GSLs.

<sup>11</sup> Ergon Energy, 'Minimum Service Standards Review – Submission, Department of Mines and Energy', 16 March 2007, page 8.

<sup>12</sup> Ergon Energy, 'Minimum Service Standards Review – Submission, Department of Mines and Energy', 16 March 2007, page 9-10.

QCA: *If changes to existing MSS and GLS are warranted, what changes should be made and by what method should these be determined?*

- **Indicative MSS targets for 2010 - 2015**

As noted above, Ergon Energy **supports** a review of the indicative MSS targets for the regulatory control period 2010-15 to determine an appropriate level of reliability for Queensland with reference to:

- The inherent performance limitations of the network, including a highly radial subtransmission network topology;
- Customer tolerance levels of network performance and customer willingness to pay; and
- The point at which MSS performance targets should 'level off'.

- **Existing GSLs**

As noted above, Ergon Energy **supports** a review of the GSL payment amounts. Ergon Energy believes that the objective of the review should be to:

- Provide distributors with an appropriate incentive to improve performance (noting GSL payments are not designed to 'compensate' consumers); and
- Minimise administration costs.

Ergon Energy considers that the GSL payment levels, as set in 2005, provided an appropriate incentive to improve performance. As such Ergon Energy would **support** the escalation of GSL payment levels to 2010-11 dollars to preserve their real value. This escalation should be based on forecast inflation for the years 2008-09 through to 2010-11 and take effect as of 1 July 2010. For administrative simplicity, Ergon Energy would support the rounding of payment levels up to the nearest dollar.

Ergon Energy notes that the GSL payment amounts are contained in numerous customer publications and widely communicated to customers. As such, Ergon Energy **does not support** annual changes to the payment amounts as it would impose significant administration costs. Ergon Energy considers that any changes to the GSL payment levels should occur as part of the QCA's review (pursuant to clause 2.5.19 of EIC) at the beginning of each regulatory control period.

QCA: *Should any additional MSS or GSL be introduced from 1 July 2010?*

- **MSS measures**

As noted above, Ergon Energy believes that the existing MSS categories are appropriate and are consistent with the national categories under the AER's STPIS. Ergon Energy **does not support** the introduction of any additional MSS measures from 1 July 2010.

- **GSL measures**

As noted above, Ergon Energy believes that the existing GSL categories in the Code are appropriate and that the inclusion of additional GSLs is not warranted at this time. Ergon Energy therefore **does not support** the introduction of any additional GSL measures from 1 July 2010.

QCA: *If so, what are they and by what method should they be set?*

No comment. Ergon Energy does not believe there should be any additional MSS or GSLs from 2010.