



Office of the
Minister for Energy and Water Supply

Ref: EWS/004598
CTS 7366/14

Level 13 Mineral House
41 George Street Brisbane 4000
PO Box 15456 City East
Queensland 4002 Australia
Telephone +61 7 3896 3691
Facsimile +61 7 3012 9115

QLD COMPETITION AUTHORITY

- 3 APR 2014

DATE RECEIVED

1 April 2014

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Dr Roberts

I write to you regarding the Queensland Government's recent decision to reform Queensland's electricity network reliability standards.

As you are aware, on 16 June 2013, the Queensland Government released its response to the report of the Interdepartmental Committee on Electricity Sector Reform. The Government response to this report accepted the recommendation to support the direction of the recommendations of the Independent Review Panel on Network Costs (IRP) relating to improving network planning and reliability standards.

Following detailed consideration of the IRP recommendations by my department, including extensive consultation during the IRP process and the 30-Year Electricity Strategy consultation process, on 10 March 2014 the Queensland Government agreed to reforms to Queensland's electricity network reliability standards aimed at delivering electricity to customers in a more cost-effective way, with an implementation date of 1 July 2014. A summary of the reliability standards reform implementation package is enclosed.

This outcome has a number of implications for the Queensland Competition Authority (QCA), particularly as the new reliability regime implements recommendations of the IRP relevant to Minimum Service Standards (MSS) as follows:

- "Remove the Minimum Service Standards from the Electricity Industry Code and instead include them in the Distribution Network Service Providers (DNSPs) Distribution Authorities, with systemic failures to meet these standards to be considered a breach of Authority conditions" (recommendation 6).
- "Set MSS levels for the DNSPs at the levels applying at the commencement of the current regulatory control period (i.e. 1 July 2010)" (recommendation 7).

Noting these outcomes, I have outlined below proposed amendments to the Queensland Electricity Industry Code (the Code) for your consideration. I have also included relevant feedback for your current 2015 Review of MSS and Guaranteed Service Levels (GSL).

Amending the Electricity Industry Code

The Queensland Government's decision on reliability reform adopts the IRP's recommendation that MSS should be a minimum level of acceptable reliability performance, and that MSS should be set as a condition of Distribution Authorities so that systemic failure to achieve the MSS carries a higher penalty than currently applicable in the Code.

My department is currently drafting amendments to each Distribution Authority to give effect to the Queensland Government's decision, with a planned implementation date of 1 July 2014. To avoid regulatory duplication and inconsistencies, I propose the following amendments to the Code, for the QCA's consideration:

- a) Repeal sections 2.4.1-2.4.3 of the Code (which prescribe the MSS and exclusions to the MSS), to avoid duplication with the MSS to be prescribed in Distribution Authorities.
- b) In association with paragraph (a), repeal Schedule 1 of the Code (reliability limits), which provides the specific standards associated with sections 2.4.1-2.4.3 and would have no rationale or effect following their repeal.
- c) Repeal sections 2.6.1(a)(i) and 2.6.2(a)(i), and remove the reference to MSS in section 2.6.2(b), to avoid duplication of reporting and monitoring requirements to be prescribed in Distribution Authorities.
- d) Repeal section 1.1.2(a) and remove references to MSS in section 1.1.2 (c), to make it clear the scope of the Code no longer captures the setting of MSS for a distribution entity and that distribution entities are no longer required to report to the QCA on their performance against the MSS. From 1 July 2014, distribution entities will instead be required to report performance against MSS to the regulator, with reports to be made available on the Department of Energy and Water Supply website.
- e) Repeal all of section 2.6.3 (audit of minimum service standards), to avoid duplication with generic internal auditing requirements already provided in the *Electricity Act 1994* and prescribed under Distribution Authorities. The regulator may require an internal or independent audit in respect of a distribution entity's compliance with a Distribution Authority.
- f) Repeal section 2.4.4 (review of minimum service standards). Section 120L of the *Electricity Act 1994* (Direction by Minister to review) will be relied upon instead if it is considered necessary for the QCA to continue to perform this function.

In summary, all of the MSS requirements in the Code will be replaced by equivalent provisions in Distribution Authorities or addressed by existing provisions under the *Electricity Act 1994*.

I am confident that the proposed amendments satisfy the Code objective "*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*" by removing duplication with Distribution Authorities from 1 July 2014, and in providing certainty for distribution entities regarding the service standards to apply going into the next regulatory period.

I understand that as part of the Code amendment process, the QCA is required to prepare and consult on a draft amendment of the Code prior to submitting the amended Code for approval. Noting the implementation date for amendments to Distribution Authorities of 1 July 2014, I do not believe sufficient time is available to satisfy this requirement. However, I draw to your attention the criteria for exemption from the consultation process prescribed under section 120PA(2) of the *Electricity Act 1994*, and put the view that the amendments are needed urgently and are of an uncontroversial nature.

Distribution Authorities will be amended by 1 July 2014 to reflect the decision of the Queensland Government. Should amendments to the Code not be achieved by 1 July 2014, it will result in unnecessary duplication and inconsistency in expectation for distribution entities (noting MSS in the Distribution Authorities will be 'flat-lined' at 2010/11 levels). This outcome would be neither desirable, nor effective, in ensuring efficient investment and use of electricity services for the long-term interests of Queensland customers. I therefore consider the amendments to be urgent.

The proposal to remove the MSS provisions of the Code, as part of the broader reliability reform package, was consulted on through the IRP process from September to October 2013, and more broadly in the 30-Year Electricity Strategy consultation process from September 2013 to January 2014. Stakeholder feedback to these processes did not raise any specific concerns with the proposed changes to MSS arrangements. Large customer representatives expressed a willingness to accept trade-offs between reliability and electricity cost under a more economic approach to network reliability. Small customer representatives were concerned that low-income and vulnerable households had less ability to cope with a less reliable electricity supply. The MSS, Worst Performing Feeders Programs and new Safety Net Measures outlined in the enclosed implementation package summary have been developed to address these concerns and ensure a safe operating space within which a more economic approach to reliability standards can be prudently tested.

Queensland distribution entities also actively participated in a working group led by my department targeted at implementation of the IRP's reliability recommendations. No concerns were raised regarding the implementation of the MSS recommendations.

2015 Review of MSS and GSL

I am aware that the QCA has commenced the review of MSS and GSLs for the next regulatory control period, and has recently released its draft decision in relation to this matter. In progressing the next steps of the review, I request the QCA take into consideration the Government's decision in relation to reliability reform, particularly the agreed outcome to flat-line MSS at 2010/11 levels. The Queensland Government agrees (following extensive consultation) with the IRP's assessment that flat-lining MSS to 2010/11 levels is appropriate. Current MSS levels exceed the level for which some customers are willing to pay, and this approach will reduce the upward pressure on network costs and thus network charges.

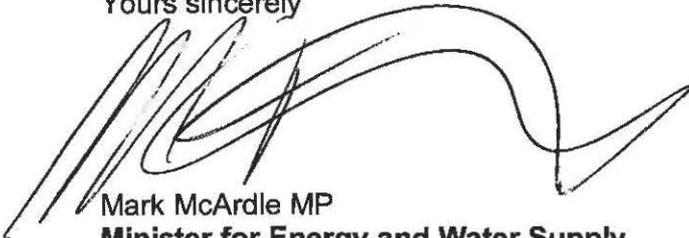
The Queensland Government is also satisfied, based on findings from consultation, that customers support reforms to strike a better balance between cost and reliability in order to reduce upward pressure on prices. I also note that Queensland's move to a more economic, outcomes-based and customer-focussed approach to reliability is consistent with the emerging National Reliability Framework. MSS content to be included in the Distribution Authorities will therefore be flat-lined at 2010/11 levels.

In making its final decision, I suggest the QCA may wish to consider this outcome to be new material not available for consideration at the time of releasing the draft decision.

I also note the QCA's proposed Code changes to section 2.5.8 Planned Interruptions. As the QCA is aware, the Government has committed to implement the National Energy Customer Framework in Queensland. Rule 90 of the National Energy Retail Rules provides for planned interruption notifications. The Government will amend this rule to allow customers and distributors to agree to different planned interruption periods. In the event that consent is given to change notice periods generally (i.e. for any planned interruptions in the future, as opposed to a specific event or series of events), the distributor will need to obtain explicit informed consent from the customer. To reduce implementation costs for distributors, I recommend that the QCA consider amending its proposed changes to the Code to better align with the Government's future intent for planned interruption notifications.

Should you require any further information on these matters, please contact Catherine Cussen, Director – Networks and Demand Response, at the Department of Energy and Water Supply on (07) 3199 4923 or Catherine.Cussen@dews.qld.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Mark McArdle', written over a horizontal line.

Mark McArdle MP
Minister for Energy and Water Supply

Enc: Reliability Standards Reform Implementation Package

Summary of Reliability Standards Reform Implementation Package

Distribution

- **Prescriptive “N-x” reliability standards (IRP Recs. 4-5):**
 - The existing prescriptive “N-x”¹ planning standards will be removed: Energex and Ergon Energy will not include such standards in their Distribution Annual Planning Reports (DAPRs) from 1 July 2014 onwards.
 - Energex and Ergon Energy will outline how they are transitioning to an economic approach to reliability investments (i.e. one where the cost of an investment needs to be justified by the customer costs avoided by the investment) in their DAPRs from 1 July 2014 onwards.
- **Service performance targets (IRP Recs. 6-7):**
 - Current service performance targets for the duration and frequency of outages (MSS) will be removed from the Code and equivalent provisions inserted into the distributors’ DAs.
 - “Systemic failure”² to meet MSS will be grounds for a breach of a DA.
 - MSS will be set at the 2010/2011 levels from 1 July 2014, with review during the 2015–2020 revenue period (whether jurisdictionally or under the National Reliability Framework).
 - The MSS conditions in the DAs will mirror the MSS requirements currently in the Code, for example:
 - Disciplinary action for breach³. Where an apparent breach has occurred the Regulator would have the discretion to initiate a ‘show cause’ process with the distribution business. If an actual breach was found the Regulator would have the discretion to cancel, suspend or amend the business’ DA and/or impose a financial penalty up to a specified amount.
 - Current MSS quarterly and annual reporting frequency will continue but reporting will be to the Regulator. Auditing of annual reports will be at the discretion of the Regulator with the distributors bearing the cost.
 - The Australian Energy Regulator’s (AER) service target performance incentive scheme (STPIS) will be retained as the means of incentivising improved reliability performance. No additional jurisdictional performance targets would be included in the DAs.
- **Benchmark reporting (IRP Rec. 8):**
 - Energex and Ergon Energy will not be required to benchmark their reliability performance against comparable national or international networks in their annual reports and DAPRs. Benchmark reporting for reliability will be undertaken by the AER on a national basis as recently proposed by both the AEMC and AER.

¹ A mandatory redundancy-based planning standard. N-x planning ensures a network should continue to function even if an ‘x’ network component fails.

² “Systemic failure” is to be defined as failure under one MSS component, frequency or duration of outages, (i.e. System Average Interruption Duration Index [SAIFI] or System Average Interruption Frequency Index [SAIFI]), three years in a row.

³ The offence provisions are set out in section 133(3) of the Electricity Act 1994.

- **Worst performing feeders (IRP Rec. 9):**
 - Energex and Ergon Energy will continue their Worst Performing Feeder programs for their worst feeders, with reporting on those programs included in their DAPRs.
- **Monetary recognition of inconvenience (IRP Rec. 10):**
 - The existing Guaranteed Service Level (GSL) arrangements under which the distributors recognise inconvenience due to poor customer service, including poor supply reliability, through monetary payments to individual customers will continue.
- **Safety Net Measures**
 - Energex and Ergon Energy will specify Safety Net Measures for approval by the Regulator. These Safety Net Measures would then be included in their DAs and further detailed in their DAPRs.
 - Safety Net Measures will manage the increased outage risks under the new Economic Approach, including the potential effects of high impact-low probability⁴ events. Measures include defining minimum restoration times for customers according to urban and rural customer classifications.

Transmission

- **Prescriptive N-x reliability standard and service performance targets (IRP Recs. 1-3):**
 - The existing prescriptive N-1 reliability standard will not be removed from Powerlink's Transmission Authority (TA) as proposed by the IRP. Rather, the current flexibility in the TA to vary the N-1 standard on nominated projects with the agreement of the Regulator would be extended to allow Powerlink to take a flexible planning approach across the whole of its network, accepting the possibility of some interruptions to supply (up to a capped exposure) where justified by capital expenditure deferrals/savings. Maximum exposure allowed for a single event would be the interruption of 50 megawatts⁵ and failure to supply 600 megawatt-hours of energy. This requires amendments to the TA that will come into effect from 1 July 2014.
 - AER's STPIS will be retained as the means for incentivising reliability performance improvements. No additional jurisdictional performance targets will be included in the TA.
 - Powerlink will outline its revised planning approach in its Annual Planning Reports (ARPs) from 1 July 2014 onwards.

⁴ Very unlikely but wide scale outages, e.g. caused by the failure of sub-transmission equipment.

⁵ Equivalent to about 25,000 homes.