Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

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Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Via email: AERInquiry@aer.gov.au

Dear Chris

Reviewing the Service Target Performance Incentive Scheme and establishing a new Distribution Reliability Measures Guidelines Issues Paper

AusNet Electricity Services Pty Ltd (**AusNet Services**) welcomes the opportunity to make a submission in response to the Australian Energy Regulator's (**AER**) Issues Paper on the review of the distribution STPIS and the development of a Distribution Reliability Measures Guideline.

AusNet Services strongly supports the use of incentives to efficiently improve the reliability of DNSPs to the benefit of customers. In response to the existing incentive arrangements, we have made significant investments in reliability-enhancing technologies in recent years, particularly distribution feeder automation (DFA), which have resulted in substantially improved reliability outcomes for customers

However, this short submission provides comments and suggestions in areas where we consider the STPIS can be improved to be made more effective, as well as where attributes of the current scheme should be retained.

We generally support the submission made by Energy Networks Australia to the Issues Paper.

Flexibility in scheme parameters

We consider there should continue to be flexibility in the values assigned to the STPIS parameters applying to individual DNSPs (e.g. revenue at risk).

The overarching objective of the STPIS is to provide an incentive for DNSPs to improve reliability where customers value those improvements. However, certain scheme characteristics are necessary to limit volatility in scheme performance and therefore in electricity prices, maintain investment certainty and ensure that, to the extent practicable, scheme performance reflects factors within DNSP control. These characteristics include, for example, applying a cap on the revenue at risk for individual DNSPs and excluding major event days based on statistical thresholds.

We consider the STPIS should continue to provide scope for networks and the AER to agree to vary the parameters assigned to individual DNSPs, such as revenue at risk. This ensures that

networks are able to increase or decrease their exposure under the scheme to align with their individual network characteristics, including the scope for future reliability improvements.

A further example is the minimum MED threshold, where a 2.5 Beta currently applies. The result of this threshold is that the performance a DNSP is rewarded or penalised for is not the performance that customers actually experience. However, applying a higher MED would result in potentially yearly price volatility and also create an incentive to make potentially inefficient investment in order to avoid large penalties.

Therefore, parameters that have a direct impact on price volatility and investment certainty should be set having regard to individual DNSP characteristics.

Transitional issues

Caution should be had when introducing or amending scheme parameters (e.g. amending the MED calculation to account for catastrophic days) that alter which events are accounted for in measuring performance under the current and future schemes. In particular, the scheme should ensure that networks are not exposed to a penalty for a one-off event in the current scheme that cannot be partially recouped in a future period via a higher benchmark. We would be happy to provide examples of this occurring in previous reviews.

Accordingly, we encourage the AER to closely examine potential transitional issues when designing the new scheme to ensure the principles underpinning the scheme are maintained.

Value of customer reliability

We consider there is a need to revisit the calculation of the VCR (value of customer reliability) to ensure the methodology to derive the value (which in turn is used to calculate incentive rates) is robust and relevant for the purposes it is used for (network investment planning generally).

In particular, we consider the VCR should be determined at the midpoint of a jurisdiction's regulatory period to allow sufficient lead time for networks to reflect any changes to the VCR in their planning approaches for the subsequent regulatory period, and in their project evaluation of reliability-based investments.

This need is demonstrated by the sharp decline in VCR that occurred in 2015, just prior to the commencement of the current regulatory control period for Victorian distributors. The timing of this change in VCR created challenges for its incorporation into our investment plans for the current period.

USAIDI/USAIFI weightings

We do not consider any alteration to the USAIDI and USAIFI weightings is justified.

While the AER is concerned that USAIDI is increasing as DNSPs target reduction in USAIFI, this is a mathematical outcome of the relevant USAIDI and USAIFI calculations, rather than a reflection of deteriorating customer reliability outcomes.

As feeders are sectionalised through the deployment of DFA, those closer to the substation are no longer affected by an outage (i.e. the SAIDI impact falls to zero), while those further away are exposed to a duration that is longer than the previous average. While this leads to an increase in USAIDI, we consider this is a symptom of the scheme's success, not its failure. Furthermore, we consider there is a high chance that for the customers still affected by an outage, the duration is shorter than that previously experienced. We would be happy to demonstrate this to the AER through a demonstration of the reliability outcomes our DFA technology has achieved.

Accordingly, the observed changes in the ratio of USAIDI to USAIFI should not be interpreted as a sign that the current incentives are imbalanced, but instead that the scheme has driven improvements in overall network reliability.

Planned outages

AusNet Services supports the inclusion of planned outages, in line with our view that stronger reliability incentives represent a positive development in the overall incentive arrangements.

Including planned outages in the scheme would be taken into account in outage planning strategies, ensuring their alignment with customer preferences for shorter planned outages.

We do not consider the safety concerns associated with including planned outages in the scheme, which have previously been raised in response to reduction targets applied by jurisdictional regulators, warrant continued exclusion of planned outages from the scheme, provided the incentive power assigned to them is limited.

Ensuring safe work practices is at the heart of all AusNet Services' policies and procedures, including in relation to planned outages. This philosophy would be unaffected by the inclusion of an incentive that encourages businesses to reduce planned outage duration. Furthermore, the evidence suggests that substantial scope exists to drive improvements in planned outage performance and, therefore, improve customer outcomes.

We would be happy to meet with AER staff to further discuss this letter. If you have any queries in relation to this submission, please contact Rob Ball, Senior Economist on 03 9695 6281.

Yours sincerely,

Tom Hallam
General Manager – Regulation and Network Strategy