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Mr Chris Pattas  
General Manager  
Network Regulation South  
Australian Energy Regulator  
PO Box 520  
MELBOURNE VIC 3001

Email: [aer inquiry@ aer.gov.au](mailto:aer inquiry@ aer.gov.au)

Dear Mr Pattas

### **SUBMISSION TO AER'S PROPOSED SERVICE TARGET PERFORMANCE INCENTIVE SCHEME**

Thank you for providing CitiPower and Powercor Australia (the **Businesses**) the opportunity to comment on the Australian Energy Regulator's (**AER's**) *Proposed Service Target Performance Incentive Scheme (STPIS)*.

On June 2008 the AER published the first version (version 1.0) of the STPIS for distribution network service providers. Since releasing the STPIS, the AER has undertaken subsequent analysis of the scheme giving further consideration to issues raised by Distribution Network Service Providers (**DNSPs**) regarding the application of the scheme in forthcoming regulatory determinations for South Australia and Victoria. The AER has also received requests for amendments to the scheme from SP AusNet (21 August 2009) and from ETSA Utilities (**ETSA**) as part of its regulatory proposal for the 2010-15 regulatory control period.

The businesses wish to raise a number of key issues and proposed changes put forward by the AER in its proposed amended STIPS.

## **Proposed amendments to the approach in determining the major event day boundary**

### *Transformation of data that is not normally distributed*

Currently, outlier performance (e.g. due to extreme weather/events) is excluded using the 2.5 beta method described in the US Institute of Electrical and Electronics Engineers (IEEE) Standard 1366-2003. The AER proposes to allow consideration of other statistical approaches in utilising the data sets applied under the scheme, in cases where the data does not exhibit a log normal distribution.

The Businesses consider it appropriate for the AER to take into consideration other statistical approaches to transform the data to a normal distribution if such an alternative transformation is proposed by the DNSP, provided they can demonstrate to the AER that its approach will lead to an outcome that is consistent with the objectives of the scheme and provide supporting information, as required by appendix D and clause 2.2 of the proposed scheme.

### *Application of a greater beta threshold*

The AER proposes to allow a DNSP to propose a major event day boundary that is greater than the 2.5 beta that is currently permitted. The AER considers that this increased flexibility will allow a DNSP to propose a major event day boundary that more accurately reflects the service performance characteristics of its network.

The Businesses consider it appropriate for the AER to take into consideration an alternative major event day boundary.

The Businesses highlight that the AER itself;

*'considers that the application of a threshold greater than 2.5 beta from the mean, as proposed by SP AusNet, may in particular circumstances result in more efficient outcomes than application of the 2.5 beta threshold. For example, where such an approach results in service outage events within a DNSP's control not being excluded for the purposes of calculating the s-factor under the scheme. Such an approach would be consistent with both the NEL and the objectives of the STPIS, particularly as it is consistent with providing an incentive for a DNSP to maintain and improve its service performance'.<sup>1</sup>*

### *Error in the calculation of the incentive rate*

The AER's amended STPIS Appendix B contains an error in the calculation of the incentive rate. In Appendix B, section 6, the incentive rate for unplanned SAIFI is expressed as a percentage for each 0.01 *interruptions* away from the performance target. The equation below does not reflect the description. The equation expresses the incentive rate for unplanned SAIFI as a percentage per unit of unplanned SAIFI.

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<sup>1</sup> AER, *Explanatory Statement, Proposed Amendment, Service Target Performance Incentive Scheme*, September 2009, p. 9.

Should you have any further questions in relation to this response, please do not hesitate to contact me on (03) 9683 4282.

A handwritten signature in blue ink, appearing to read 'Rolf H.', with a stylized flourish extending to the right.

**Rolf Herrmann**  
**MANAGER REGULATION**