countryenergy

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Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
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Dear Mr Pattas

Guidelines, models, schemes and service target performance incentives for electricity distribution network service providers – Issues Papers

Country Energy appreciates the opportunity to respond to the issues papers for distribution network service providers (DNSPs) released in November 2007 by the Australian Energy Regulator (AER).

Country Energy understands that these papers are preliminary consultations to allow stakeholders the opportunity to provide input and comments prior to the AER setting out its proposed positions for formal consultation under the requirements of Chapter 6 of the National Electricity Rules (NER).

Country Energy supports the practical and open manner in which the AER has approached its consultation processes to date and we look forward to continuing to work with the AER in the development of the guidelines, models and schemes covered by the issues papers.

Post Tax Revenue Model

Country Energy believes that the post tax revenue model (PTRM) developed under Chapter 6A of the NER and the recently released PTRM for NSW and ACT distributors under the transitional Chapter 6 NER are suitable to use as the basis for the development of a national PTRM for DNSPs. However, Country Energy supports the recognition of capital expenditure on a full as incurred basis consistent with the transitional PTRM, rather than the hybrid approach adopted in the transmission PTRM.

The recognition of capital contributions in the PTRM should be dealt with as part of each DNSP's revenue determination in the short term, given the differences in treatment between jurisdictions. Country Energy envisages that the PTRM could incorporate a common approach in the future when capital contributions arrangements are aligned during the national reform process.

Country Energy also supports the inclusion of indicative X-factor calculations in the PTRM to assist stakeholder's understanding of the complete revenue proposal.

Roll Forward Model

Country Energy agrees with the principles proposed by the AER for the development of the distribution roll forward model (RFM). These principles include using the transmission RFM as a base, consistency with PTRM assumptions, the ability for DNSPs to propose alternative depreciation profiles and the recognition that the RFM may have to cater for individual transitional issues for each DNSP.

Efficiency Benefit Sharing Scheme

Country Energy believes that the economic regulatory framework provides the necessary incentives to continuously seek to improve and become more efficient. Any inefficiency on the part of a distributor will be exposed by adverse impacts on their financial and service performance. Country Energy has expressed its belief on the weaknesses of an EBSS in previous submissions.

In the event of an EBSS being implemented, Country Energy does not support the operation of negative carryovers for the following reasons:

- It is not economically sound as the effect of a negative carryover would be to restrict the distributors from receiving the full amount of revenue as estimated by the AER as being required to facilitate the efficient operation and maintenance of the network;
- It penalises distributors twice, once for the over spend (with no corresponding revenue stream) and second through the negative carryover. Equally, the expenditure may be deemed prudent yet distributors still receive a penalty;
- Negative carryovers will adversely impact on Country Energy's ability to achieve its Ministerial reliability licence conditions by confiscating prudent and necessary expenditures;
- Customers are no worse off for any overspending, only the distributor loses; and
- Where the AER approved level of efficient operating expenditure is lower than the distributor's level of achievable expenditure submitted in its regulatory proposal, and the distributor subsequently overspends the approved allowance, a negative carryover doubly penalises the distributor. First, by not allowing recovery of the extra expenditure, and second through confiscation of these perceived inefficiencies in future regulatory periods.

If the AER does implement negative carryovers then they should be offset against positive carryovers with a net carryover floor of zero.

Country Energy agrees that the focus of an EBSS should be on those costs that are controllable by the DNSP. Consequently, all changes in scale and scope of business activities need to be recognised and excluded from the EBSS calculation. Ignoring them would unfairly penalise Country Energy for expenditure that was not forecast, even where this expenditure has been prudent. Country Energy believes that while a distributor may indeed propose other categories of exclusions as part of their regulatory proposal, events not listed in the proposal or as a default adjustment should not be disregarded. As part

of the AER's information collection framework for an EBSS, there should be scope for DNSPs to recognise and exclude any other cost impacts that were not part of the approved allowances.

Service Target Performance Incentive Scheme

Country Energy believes that the AER should not impose a financial service performance incentive scheme where there is already a comprehensive service standards regime established by jurisdictions. It would be inappropriate for the STPIS to allow for the introduction of a financial mechanism that could potentially negate the benefits and intent of existing jurisdictionally set service standards. Country Energy would be effectively penalised twice for not meeting the same single target, putting at risk our ability to comply with jurisdictional targets and standards in the future.

Country Energy believes the best approach to incentive regulation to achieve supply reliability outcomes is to set performance targets consistent with jurisdictional obligations, and the public reporting of performance against those targets. This form of regulation is simple and would continue to play an important role in providing effective commercial incentives to maintain and improve reliability service levels, particularly for those poorer performing parts of a network. Simple and relevant information will allow users to easily compare the performance of each DNSP against their individual targets.

In introducing a national STPIS the AER would need to ensure there is no duplication with current jurisdictional schemes, and also implement a set of consistent measures and definitions. Public reporting should be on the common set of agreed measures. An STPIS will also need to take account of the comprehensiveness of each DNSP's historical data and capacity to collect any new information requirements. It will be particularly difficult to isolate the impact on historic performance of any new measures or definitional changes to current measures.

Country Energy supports an efficient, practical and consistent approach to the selection of service performance measures to be included in the STPIS. When considering the design of the STPIS, the following principles should be applied:

- Reflect current licence and service obligations, or those likely to be in place, during the regulatory period;
- Reflect aspects of service delivery performance that are meaningful and most valued by customers;
- Reflect aspects of performance that can be influenced by the DNSP;
- The available historical data for each measure must be reliable and not excessively costly to obtain;
- Select the minimum number of measures that would give a good understanding of network and customer service performance; and
- Target a degree of commonality between jurisdictions.

Country Energy supports the use of the three widely accepted reliability measures SAIDI, SAIFI and CAIDI as appropriate, as they have become industry standards for public

reporting purposes. The classifications outlined in the issues paper at section 4.1 of CBD, Urban, Rural Short and Rural Long would be satisfactory starting points.

Country Energy supports an approach that uses a quantified probability methodology that identifies abnormal events where the impact on the reliability of electricity services to customers is so severe as to dominate reliability statistics. Current NSW licence conditions provide a methodology that is based on the Institute of Electrical and Electronics Engineers (IEEE) standard 1366-2003 for the exclusion of one off exceptional events in performance monitoring regimes applying to electricity distributors. Country Energy believes that this approach is an appropriate base for development of an STPIS.

The STPIS should exclude planned outages as these are essential network operations that ensure customers continue to receive a safe and secure supply of electricity.

If the AER were to contemplate introducing a financial incentive scheme, Country Energy believes there would need to be a significant amount of time and money invested in developing robust data collection methods, researching customers' willingness to pay and establishing appropriate incentive rates.

Country Energy would be pleased to discuss the matters raised in this submission with the AER. If you require further information or clarification in relation to this submission please feel free to contact Natalie Banicevic on 02 6589 8419 or Jason Cooke on 02 6338 3685.

Yours sincerely

Bill Frewen
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