Ref.: CP/TM-L

14 May 2008

Mr Chris Pattas
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Dear Mr Pattas

Discussion Paper: Proposed Service Target Performance Incentive Scheme for Electricity Distribution Network Service Providers

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Regulator (AER) to comment on the development of a Service Target Performance Incentive Scheme to support the transition to a nationally consistent framework for the economic regulation of electricity distribution networks.

The attached submission represents Ergon Energy response to the AER's proposed Service Target Performance Incentive Scheme and the accompanying Discussion Paper.

Ergon Energy would welcome the opportunity to discuss this submission or provide further detail regarding the issues that it has raised should the AER require.

Yours sincerely

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Ergon Energy Corporation Limited

Service Target Performance Incentive Scheme Guidelines - Submission

Australian Energy Regulator

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

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Overview

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Australian Energy Regulatory (AER) on its consultation:

- *"Explanatory statement and Discussion Paper - Proposed electricity distribution network service providers service target performance incentive scheme"* (April 2008) (Discussion Paper); and

- *"Electricity distribution network service providers service target performance incentive scheme"* (April 2008) (Guidelines).

This submission is provided by Ergon Energy, in its capacity as a distribution network service provider (DNSP) in Queensland.

At a high level, this submission supports and/or seeks clarification about the following:

- The inclusion of all substantive issues in the guidelines and the use of regulatory information instruments only in circumstances where there are specific issues related to an individual DNSP, or a class of DNSPs, that are required to be addressed outside the guidelines;

- A series of additional clarifications on the intended operation of the service target performance incentive scheme (Scheme), including the:

    - relationship between the Scheme, minimum service standards (MSSs) imposed under state-based arrangements and targets applied in establishing capital expenditure (capex) and operating expenditure (opex) requirements. This should be reflected in the Guidelines. It is Ergon Energy's view that jurisdictionally set MSSs are the standards to which DNSPs need to design, operate and be funded in their Distribution Determination to achieve. Then the purpose of the Scheme is to penalise/reward DNSPs for their year-on-year actual performance improvements/decrements (which does not require reference back to the MSSs);

    - proposed mechanisms for 'reversing out' performance gains and improvements where these are considered to have been recovered from both the distribution determination and the operation of the Scheme. Ergon Energy does not believe that the National Electricity Rules (Rules) envisage the Scheme to be a funding mechanism – i.e. the Scheme is not a substitute for the DNSP's forecast capex and opex requirements;

    - information that a DNSP will need to submit to the AER in its building block proposal; and

    - provision of the AER's proposed model and more comprehensive examples to illustrate operation of the s-factor over the course of the regulatory control period;

- The inclusion of SAIDI and SAIFI as reliability measures. Ergon Energy does not support the inclusion of MAIFI or planned outages in the reliability measure at this time; and

- The development of a more holistic measure of customer service, based on 'customer satisfaction'. Ergon Energy does not support the customer service parameters proposed.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues that it has raised should the AER require.

Scope of Guidelines

Schedule 6.1.3(4) of the Rules requires a DNSP's building block proposal to contain a description, including relevant explanatory material, of how the DNSP proposes the Scheme should apply for the relevant regulatory control period. Ergon Energy believes that the level of detail required for a DNSP to develop a Scheme for inclusion in its Regulatory Proposal is currently absent from both the Guidelines and the Discussion Paper.

As a general principle, Ergon Energy believes that all substantive provisions related to the preparation and application of a DNSP's Scheme should be detailed in the Guidelines. Ergon Energy is concerned that, as currently drafted, the Guidelines will rely heavily on the use of regulatory information instruments to provide the level of detail that DNSPs will require to effectively develop and apply the Scheme.

This applies equally to all the guidelines that have been released by the AER for comment and is a matter of particular concern for those DNSPs who are currently in the process of preparing their Regulatory Proposals.

Ergon Energy believes that in the interests of transparency and regulatory certainty, all substantive issues should be addressed in the guidelines and that regulatory information instruments should only be used in circumstances where there are specific issues related to an individual DNSP, or a class of DNSPs, that are required to be addressed outside the guidelines.

Ergon Energy does not believe that the National Electricity Law (Law) or Rules envisage the use of regulatory information instruments for matters of general application to all DNSPs. This interpretation is supported by:

- The basis upon which the AER is permitted to issue a regulatory information instrument under Part 3, Division 4 of the Law. For example:
  - Section 28C of the Law, which provides that the AER may issue a regulatory information order to "each regulated network service provider of a specific class, or each related provider of a specified class…"; and
  - Section 28D of the Law, which provides that the AER may issue a regulatory information notice to "the regulated network service provider, or related provider, named in the notice…";
- The degree of transparency supporting the development of a regulatory information instrument being lower than that supporting the development of a guideline. In particular:

- Section 6.16 of the Rules requires the AER to comply with the 'distribution consultation procedures' in making, developing, or amending any guidelines, models or schemes, or in reviewing any values or method. This provides for a two-stage process of public consultation involving the release of a draft document, explanatory statement, a summary of responses to issues raised, and a final decision; and

- Section 28F of the Law permits the AER to serve a regulatory information notice or make a general regulatory information order in circumstances where it considers this reasonably necessary in the performance of its functions or powers:

    - Section 28J of the Law only requires the impacted party to be provided with an opportunity to be heard (including provision of a draft), prior to service of a regulatory information notice; and

    - Section 28H of the Law only provides a general requirement for public consultation, prior to making a general regulatory information order.

- The 'status' of the regulatory information instruments and the guidelines differ, impacting the degree of flexibility in their application that is afforded to both the AER and the impacted DNSP (or related party). In particular:

    - Section 6.2.8(c) of the Rules state that the guidelines are not mandatory and hence do not bind the AER or any other party; and

    - Sections 28N and 28O of the Law require a party receiving a regulatory information notice or general regulatory information order, to comply with the notice or order. As these instruments are binding in nature, they should be used with discretion.

Ergon Energy suggests that the guidelines should contain a greater level of specification than currently proposed and that the use of regulatory information instruments should be minimised.

In those circumstances where regulatory information instruments are required, these should be released by the AER as a matter of priority.

1 Introduction

No comment is provided.

2 Background

No comment is provided.

3 Rule requirements

The Queensland transitional arrangements under clause 11.6.5 provide for the following with respect to the development of the Scheme:

> *In formulating a service target performance incentive scheme to apply to ENERGEX and Ergon Energy for the regulatory control period, the AER, in addition to the requirements in clause 6.6.2(b), must also:*
> *(1) take into account the continuing obligations on ENERGEX and Ergon Energy throughout the regulatory control period to implement the recommendations from the EDSD Review adopted by the Queensland Government;*
> *(2) take into account the impact of severe weather events on service performance; and*
> *(3) consider whether the scheme should be applied by way of a paper trial or whether a lower powered incentive is appropriate.*

Ergon Energy believes that the Guidelines should explicitly acknowledge the transitional provisions contained in Chapter 11 of the Rules and the role that they will play in the development and implementation of the Scheme for those DNSPs to whom they apply.

4 Reasons and basis for the Scheme

No comment is provided.

5 Outline of Scheme operation

5.1 Application of the Scheme

Q1. The AER would like views on whether there is sufficient clarity in the proposed scheme, so that DNSPs can plan the actions they need to take to be able to comply with the scheme when it is implemented.

While Ergon Energy supports flexibility in the Scheme's application to individual DNSPs through the framework and approach and distribution determination processes, additional clarification on the Scheme's intended operation is required in the Guidelines. In particular:

- The categories of services to which the Scheme is intended to apply. Ergon Energy believes that there should be a direct correlation between the service category and the Scheme parameter, for example, 'network services' have a strong relationship with SAIDI and SAIFI outcomes.

  This issue will also need to be addressed in detail the AER's Framework and Approach;

- The relationship between the Scheme and the 'reliability' standards that the AER will have regard for when assessing a DNSP's capex and opex requirements under Chapter 6 of the Rules. For example, whether target values set under the Scheme will be more onerous than those applied in setting a DNSP's capex and opex forecasts.

  Ergon Energy believes that the Guidelines should make clear the relationship between the:

  - Scheme, which establishes a series of target performance values for a number of service parameters;

  - minimum service standards imposed under state-based arrangements (i.e. the minimum performance standards that a DNSP must achieve, but to which no direct financial reward or penalty is attached for achieving, exceeding or failing to meet the standard); and

  - targets applied in establishing a DNSP's capex and opex requirements under clauses 6.5.6(b)(3)(4) and 6.5.7(b)(3)(4) of the Rules.

  While the AER should have regard to the minimum service standards in setting the s-factor values, the minimum service standards and s-factor values are not substitutes for each other, in terms of either the level of reliability set or the financial incentives applied.

  Ergon Energy has assumed that:

  - the s-factor values will be more onerous than the minimum service standards in order to provide an extra reward for higher performance;

  - the minimum service standards will be used to establish the DNSP's capex and opex forecasts; and

  - there will be no relationship between the s-factor values and the DNSP's capex and opex forecasts as the s-factor values are not known with certainty in advance of the regulatory control period and instead, evolve over time.

  Ergon Energy seeks formal confirmation from the AER that these assumptions are sound;

- The information that a DNSP will need to submit to the AER for the purposes of Schedule 6.1.3(4) of the National Electricity Rules (Rules). Ergon Energy believes that the Guidelines should specify the information that the DNSP will be required to include in its building block proposal; and

- The information that will be detailed in the Framework and Approach under clause 6.8.1(b)(2) of the Rules that will not be addressed in the Guidelines. Ergon Energy believes that the Guidelines should specify the nature of the matters that the AER intends to address in its Framework and Approach.

Clarification of the AER's intended approach to these issues is necessary so that DNSPs are able to assess the Scheme's effectiveness and limitations in driving network performance towards long term targets without jeopardising performance improvement initiatives and revenues.

5.2 Key Features of the Scheme

Ergon Energy seeks clarification on the following key features of the Scheme:

- Ergon Energy is having some difficulty in testing the Scheme without access to the AER's proposed model. As noted below, there appears to be some conflict between the words in the Guidelines and the worked examples. Ergon Energy therefore requests that the AER develop and provide DNSPs with the model that will be used to perform year-on-year calculations under the Scheme.

- It is queried whether, with regard to the smoothed ARR (applied in calculating incentive rates), energy consumption (applied in calculating incentive rates) and target values for each of the parameters (i.e. SAIDI, SAIFI, etc), it is intended that these values:

  - will be determined only once at the beginning of the regulatory control period and thereby remain constant for each year of the regulatory control period, based on the DNSP's average performance over the previous 5 years; or

  - will be determined for each year of the regulatory control period and thereby vary each year of the regulatory control period, based on the DNSP's rolling average of the previous 5 years.

  The worked example of the s-factor calculation in the Guidelines appears to:

  - hold the performance targets for different feeder categories constant for the two years over which the s-factor has been calculated; and

  - result in a penalty (i.e. a negative s-factor result) in circumstances where the DNSP has met the service targets for two consecutive years.

  It is suggested that the AER should provide more comprehensive examples and its model to illustrate how the s-factor would work over the course of an entire regulatory control period. This should include clarification on any assumptions applied by the AER.

  Furthermore, if the AER intends for these values to be determined only once at the beginning of the regulatory control period, Ergon Energy believes that the Guidelines specify an approach to determining appropriate values of ARR and energy consumption for application under the Scheme.

- Section 6.5.2 of the Discussion Paper refers to the modification of performance targets to "reflect completed or planned improvements where these have been funded directly through a distribution determination and where the reliability improvements are expected to result in a material improvement in reliability".

  Ergon Energy does not believe that the Rules envisage the Scheme to be a funding mechanism and seeks clarification from the AER as to the proposed mechanisms for 'reversing out' performance gains and improvements where these are considered to have been recovered from both the distribution determination and the operation of the Scheme. That is, the Scheme is not a substitute for the DNSP's forecast capex and opex requirements in its building block proposal.

- With respect to the reliability parameters, the range of network segmentation options that are available to a DNSP. For example, whether it is possible for a DNSP to propose segmentation on the basis of:

  - whole of network performance (i.e. no distinction made between distribution network feeders, subtransmission network feeders or otherwise);

  - distribution network feeder performance only (i.e. excluding subtransmission network feeders and other network feeder types);

  - both distribution network and subtransmission network feeder performance; or

  - non-network customer related criteria.

- Whether the Scheme will include a separate set of performance targets based on the normalised performance of a DNSP (i.e. separate to any existing jurisdictional performance targets).

6 Issues raised in submissions and AER response

6.1 Objective in establishing the Scheme

Ergon Energy believes that the Scheme should be amended to explicitly provide for the development of an individual DNSP-related objective. This will assist in the identification of appropriate parameters and targets and will ensure that there is recognition of the range of network performance improvement mechanisms with which DNSPs are required to comply under jurisdictional legislation and licence.

For example, a DNSP with a large rural network may have a STPIS with objectives that are tailored to delivering reasonable performance of a radial network. For a DNSP with a highly concentrated interconnected distribution network (CBD feeder categories), the objective of a STPIS could be to achieve network performance commensurate with customer tolerance and expectations.

6.2 Types of Scheme

While Ergon Energy supports the development of a national reporting regime to support the Scheme, the suite of measures and targets that are reported against should not be primarily driven by a comparison of performance between individual DNSPs, either within or between jurisdictions.

Measures and targets will need to be developed by reference to the unique characteristics of each DNSP and the objective that is sought to be achieved under the Scheme for the individual DNSP. These issues will be influenced by the DNSP's:

- Operating environment –
  - service area (square kilometres);
  - network topology (i.e. meshed or radial);
  - customer density (i.e. largely dispersed or concentrated density); and
  - composition and condition of network assets.
- Regulatory regime – The Scheme's interaction with the jurisdictional regulatory arrangements and reporting, including with respect to service incentives, minimum service standards and GSLs.

Ergon Energy does not believe that there should be a requirement for common measures or targets in order to achieve a national framework for reporting.

6.3 Overall design

The AER, at section 6.3.2 of the Discussion Paper, states that:

> *The proposed STPIS is designed to reward sustained performance improvements by effectively setting the target for a year at the actual result for the previous year. In this way the scheme only rewards (or penalises) long term systemic changes in performance rather than year on year variations. The AER considers that this approach best supports the objectives of the scheme.*

In relation to this, Ergon Energy request clarification on the following:

- The manner in which the reliability improvements resulting from long term systemic changes can be captured in circumstances where the target for a year is set at the actual result for the previous year. Setting targets for a year at the actual result of the previous year appears contrary to the intent to only reward or penalise long-term systemic changes in performance. In addition, this statement is inconsistent with the worked example provided in Appendix C of the proposed Guidelines, where the targets do not change from year to year despite yearly changes in actual performance.

  The performance improvements made by DNSPs are likely to be offset by exogenous events, such as storms, lightning, floods, etc, which are unable to be completely eliminated through the exclusion mechanism.

  Ergon Energy believes that the Scheme should focus on encouraging DNSPs to continue improving the average long term performance trend of network reliability rather than the performance in a particular year;

- Consistent with the comment in section 5.2, whether the Scheme values are intended to be determined once at the beginning of the regulatory control based on the DNSP's average performance over the previous 5 years, or will be determined for each year of the regulatory control period based on the DNSP's rolling average of performance for the previous 5 years;

- Consistent with the comment in section 5.2, the proposed mechanisms for 'reversing out' performance gains and improvements where these are considered to have been recovered from both the distribution determination and the operation of the Scheme; and

- The manner in which the Scheme will avoid penalising a DNSP for not achieving material ongoing improvement after a period of consistent improvement. That is, the risk that the more reliable the supply network becomes, the larger the 'gap' between target system performance and achievable system performance.

6.4 Types of measures

Reliability measures

While Ergon Energy supports the inclusion of SAIDI and SAIFI as parameters for the reliability of supply, the inclusion of MAIFI is not supported at this time. This is due to the fact that:

- Accuracy in reporting on MAIFI is subject to variances in network monitoring capability between distributors;

- Data collection is difficult for those areas of the network where there is no SCADA coverage;

- Limitations in historical data on momentary outages will make it difficult to identify an appropriate target; and

- Automatic switching schemes (e.g. load control) are designed to improve system SAIDI at the cost of momentary interruptions, thereby distorting MAIFI outcomes. This is a particular issue for networks such as Ergon Energy's which has a high penetration of controlled load.

Q2. The AER would like views on the proposed inclusion of planned interruptions in the reliability measures.

While a DNSP should actively manage the impacts of both its planned and unplanned outages, Ergon Energy does not believe that planned interruptions should be included as a reliability parameter in the s-factor scheme. In particular:

- The AER's statement in section 6.4.1.2 of the Discussion Paper that "planned interruptions only make up a small percentage of interruptions and therefore their inclusion would not have a big impact on the measure overall", does not hold true for all DNSPs. Ergon Energy's planned outages across feeder categories on average represent 33% of total SAIDI and 23% of total SAIFI and are a consequence of growth on its network and a significant capital works program;

- Incentive rates under the Scheme are based on the value of consumer reliability (VCR). It should be recognised however that the customer impact, and consequently the VCR, for planned and unplanned interruptions will differ, due to the fact that customers can typically take preventative actions to lessen the impact of a planned interruption; and

- DNSPs must have interruptions to supply in order to connect new customers and to undertake maintenance. This has a particular impact on DNSPs who have high growth and a large number of new connections. Therefore, planned maintenance and construction activities should be exempted from the Scheme. This would not only assist in ensuring the safety of staff and system assets, but also reduce the potential for unplanned outages resulting from poorly planned works.

Importantly, the removal of planned interruptions from the Scheme would not preclude a requirement for a DNSP to provide data on planned interruptions to the AER via the reporting framework.

In circumstances where planned interruptions are included in the Scheme, these should be separately measured where they are likely to materially contribute to the DNSP's overall performance.

Quality measures

Ergon Energy supports the AER's decision not to specify any quality of supply parameters in the proposed Scheme.

Ergon Energy believes that quality of supply parameters should not be incorporated into the Scheme until such time as:

- A set of nationally recognised parameters has been defined;

- Quality of supply monitoring has been implemented; and

- There is sufficient historical data is available to support their effectiveness.

Customer service measures

Ergon Energy does not support the customer service parameters proposed and believes that the customer service component of the Scheme should be based on a measure of 'customer satisfaction'. Under this framework, the relevant data would be collected via an independent survey undertaken on a periodic basis (e.g. annually), commissioned by the relevant DNSP and be based on a list of common questions.

This would:

- Provide a parameter that encompasses a range of customer service attributes and consequently, provides a more meaningful measure than a series of discrete and unconnected targets;

- Be readily developed from an existing base of information as it is anticipated that DNSPs would already be undertaking their own periodic surveys of customer satisfaction;

- Support the development of a VCR for customer service through the survey mechanism; and

- Allow policy, technology or other changes expected to materially affect the service being measured to be incorporated into the customer service measure without fundamentally changing the underlying structure of the Scheme.

If adopted, this measure would effectively replace the existing parameters proposed under sections 5.1(a) – (c) of the Guidelines.

Ergon Energy strongly encourages the AER to investigate the adoption of a more holistic and meaningful measure of customer service than that currently proposed.

While Ergon Energy supports the alternative measure discussed above, the following comments are also provided on the specific customer parameters that have been proposed under the Guidelines:

- "Telephone answering" is an exceptionally narrow parameter that fails to adequately reflect the level or quality of service that a customer receives. While there is a history of DNSPs' reporting on this parameter at a jurisdictional level, its relevance as a performance measure is decreasing over time as the nature and form of customer and DNSP communications evolves (e.g. increased use of the internet).

  Ergon Energy suggests that "telephone answering" should, at most, represent an 'optional' parameter under section 5.1(c) of the Guidelines. Ergon Energy does not believe that there should be any mandatory customer service parameters applied under the Scheme;

- A number of the optional parameters that have been proposed are already addressed through GSLs - either within the Scheme or separately at a jurisdictional level. Given that these parameters are 'optional', they should be more generally defined with the onus left on the DNSP to demonstrate to the AER why the parameter proposed is appropriate to its operations and how it is proposed that it be measured. For example, streetlight repair, new connections and notice of planned interruptions, should be replaced with "completion of service activity type within prescribed levels"; and

- Recognised customer service parameters should be included in the optional list as well as the ability for a DNSP to propose a parameter which is considered appropriate to its operations and customer base. For example, "first contact resolution" and "customer satisfaction". As noted above, the onus would be on the DNSP to satisfy the AER that the parameter proposed is both appropriate to its operations and that it can be meaningfully applied and measured.

6.5 Approach to setting performance targets

Q3. Is the mechanism proposed by the AER to balance the incentive to carry out network augmentation with non-network alternatives under the scheme sufficient? Are there any other mechanisms that the AER should put in place in this regard?

Ergon Energy believes that the mechanism for modifying performance targets in recognition of non-network alternatives is appropriate. No additional mechanisms are required.

6.6 Approach to setting rewards and penalties

Q4. The AER would like views on the proposed approaches for setting incentive rates for the reliability and customer service components of the scheme.

Ergon Energy raises the following issues with respect to the setting of incentive rates under the Scheme:

- The methodology applied in determining the VCR does not reflect the characteristics of an individual DNSP's customer base, including variations with respect to customer demographics, growth rates both across the network and within customer segments, and willingness to pay.

  Ergon Energy believes that a DNSP should be provided with the flexibility to submit alternative values for the VCR in circumstances where it can be demonstrated that these more appropriately reflect the DNSP's customer base; and

- Although it is intended for the s-factor to operate in a symmetrical manner, asymmetric risk appears to be inherent in the Scheme. This is as a consequence of the modification of the previous year's price by the s-factor to achieve the current year's price – i.e. the percentage increase in the price cannot be offset by the same percentage decrease. For example, if it is assumed that the price at a year t is $0.1/kwh and that it is increased by 3% in year t+1 and then decreased by 3% in year t+2, the price for each year would be as follow:

  t: $0.1/kwh;
  t+1: $0.103/kwh;
  t+2: $0.09991/kwh.

  Clarification is sought on the AER's intended approach to setting the incentive rate under the Scheme.

6.7 Allowing for risks

Q5. The AER would like views on its proposal to set the overall cap on the s-factor at 3% of revenue.
Q6. The AER would like views on the proposed revenue at risk for the customer service component and an individual parameter within the customer service component.

Ergon Energy supports the AER's proposal to cap the revenue at risk under the Scheme at 3%, with the flexibility for a DNSP to propose a decrease in this amount in circumstances where the Scheme's objectives would be satisfied. Ergon Energy also supports the use of paper trials and low-powered Schemes as transitionary mechanisms where appropriate, for those DNSPs who have not previously operated under a service incentive scheme. In addition to the flexibility proposed in the AER's Guidelines, Ergon Energy refers the AER to the Queensland Transitional Rule 11.16.5.

Ergon Energy supports the AER's decision to cap the maximum revenue at risk for the customer service component of the Scheme and individual customer service parameters.

However, clarification is however sought on the following:

- Section 2.4(a) of the Guidelines states that:

  > *Subject to clause 2.4(b) and excluding the GSL component, the maximum revenue increment or decrement (the revenue at risk) for the scheme components in aggregate for each year within the regulatory control period shall be 3%, that is, the sum of the s-factors for all parameters must lie between +3% and -3%.*

  Section 5.2 of the Guidelines states that:

  > *(a) The maximum revenue at risk for all customer service parameters in aggregate shall be 1% of revenue for each year of the regulatory control period.*
  > *(b) The maximum revenue at risk for an individual customer service parameter shall be 0.5% of revenue for each year of the regulatory control period.*

  As noted in section 3, Ergon Energy has a transitional arrangement under clause 11.16.5(3) of the Rules which requires that the AER, in formulating the Scheme to apply to Ergon Energy, must "consider whether the scheme should be applied by way of a paper trial or whether a lower powered incentive is appropriate".

  Ergon Energy seeks confirmation that if a lower powered incentive is considered and provided it is consistent with all other objectives of the Scheme, Ergon Energy will be permitted to propose all of the following:

  - the maximum revenue increment or decrement (the revenue at risk) for the scheme components in aggregate;
  - the maximum revenue at risk for all customer service parameters in aggregate; and
  - the maximum revenue at risk for an individual customer service parameter.

- Ergon Energy queries the manner in which the revenue cap will be adjusted to reflect actual performance against the annual performance targets.

  For example, if a 3% cap is applied, the actual performance against target may result in a maximum variation of ±3% of revenue. If annual or regulatory period targets are not modified correspondingly, a DNSP may only receive ±3% for a higher percentage (e.g. ±4%) of actual performance. This may place extra pressure on a DNSP to outwork a previous year's good performance or conversely, reward a DNSP for an improvement from a previous year's poor performance. This may, in turn, impede a DNSP's performance improvements.

- Whether S_t or $S_t^{'}$ will be capped by 3% under the methodology for adjustment detailed in Appendix C of the Scheme.

- Section 5.3.2(a) of the Guidelines states that the "incentive rate for the telephone answering parameter must be either 0.040 or…". Ergon Energy seeks clarification as to what the rate of 0.040 will be applied.

6.8 Exclusions

Q7. The AER would like views on the proposed scope of exclusions.

2.5 beta method

Ergon Energy supports adoption of the IEEE 1366-2003 standard for the purposes of defining a 'major event day' (MED), subject to the following:

- A DNSP's ability to submit to the AER that a severe event constitutes a MED in those rare circumstances where its occurrence is 'split' over two days – i.e. in circumstances where the 'midnight to midnight' timeframe would otherwise preclude the severe event being classified as a MED:
  - This is an issue of particular concern for DNSPs such as Ergon Energy who are subject to frequent severe weather events which have a propensity to move across a wide area of the network over a lengthy period of time; and
  - In the case of the Queensland DNSPs, this would also be consistent with the transitional arrangements in clause 11.6.5 of the Rules which requires the AER, in formulating the Scheme, to "take into account the impact of severe weather events on service performance"; and
- Clarification as to whether the T_{MED} threshold for the major event day exclusion methodology is intended to be calculated every year during the regulatory control period (as is the existing practice in Queensland), or whether it is intended that will be determined only once, at the beginning of the regulatory control period.

Other reliability exclusions

Ergon Energy supports the exclusions specified in clauses 3.3 and 6.4 of the Guidelines but believes that these should be expanded for individual DNSPs to recognise existing permitted jurisdictional exclusions. That is, the Scheme should be designed to exclude both "single very large events" and those events which, although smaller in terms of individual impact, are either outside the DNSP's control or in aggregate are likely to result in unreasonable penalties being applied.

For example, in addition to the exclusions proposed in the Guidelines, clause 2.4.3 of the Queensland Electricity Industry Code (which will continue to exist in parallel with the AER's Scheme) provides that in determining whether a distribution entity has exceeded its SAIDI or SAIFI limits for the purposes of its minimum services standards, the following interruptions will not be taken into account:

- An interruption of a duration of one minute or less (momentary); and
- An interruption resulting from:
  - a direction by NEMMCO, a system operator or any other body exercising a similar function under the Electricity Act, National Electricity Rules or National Electricity Law;
  - automatic shedding of load under the control of under-frequency relays following the occurrence of a power system under-frequency condition described in the power system security and reliability standards;

- a direction by a police officer or another authorised person exercising powers in relation to public safety; and

- an interruption caused by a customer's electrical installation or failure of that electrical installation.

Consistency in the national and state-based exclusions that are applied will significantly reduce compliance costs, including with respect to the measurement, reporting and audit of performance statistics and excluded events.

Customer service exclusions

Ergon Energy supports the exclusion of those events from the revenue calculation for the customer service component, have been excluded under the reliability of supply component of the Scheme.

Ergon Energy believes however that this arrangement should apply equally to all customer service parameters under the Scheme, not just to "telephone answering".

6.9 Other s-factor issues

Q8. The AER would like views on how the s-factor should be incorporated into the form of control.

Ergon Energy supports the incorporation of the s-factor into the general form of control as outlined in the Appendix C of the Scheme.

Ergon Energy reserves further comment on this issue until worked examples on the method for applying the s-factor into the control mechanism are made available by the AER.

Q9. The AER would like views from stakeholders on the proposed s-bank mechanism.

Ergon Energy supports the proposed s-bank mechanism, although:

- Side constraints may be imposed by the AER on increases in distribution prices for individual customers or customer classes, to limit price shocks. Incentive schemes therefore may, individually or in aggregate, result in side constraints on network prices being exceeded and the loss by the DNSP of the incentive reward. Ergon Energy suggests that flexibility should be permitted for a DNSP to seek an extension of the one year 'banking' period in circumstances where side constraints on prices would otherwise be exceeded. This will be an issue for the AER's consideration under any incentive scheme where customers pay for performance outcomes through distribution charges; and

- Ergon Energy seeks formal confirmation that the DNSP will have the discretion to determine whether, and to what value, the s-bank mechanism should be applied.

Q10. The AER would like views on the proposed mechanism to align the scheme with the EBSS.

Ergon Energy supports an alignment of the Scheme's retention period with that applying under the EBSS.

Q11. The AER would like views on the proposed timing of the incentive and the impact of requiring all reporting on a calendar year as proposed.

The AER has recommended that "all reporting be on a calendar year basis to facilitate public reporting and to assist the AER in its administration of annual regulatory processes applicable to DNSPs".

Ergon Energy requests clarification on the intended timing for determining the incentive and making the revenue adjustment for those DNSPs that have regulatory periods aligned with financial years. It should be recognised that, in reality, the proposed timeframes become compressed by the requirement for network prices to be established and submitted in March each year for publication by 31 May. That is, the proposed 6 month window between the end of the reporting period and the application of the s-factor to customer prices, effectively becomes 3 months.

Ergon Energy believes that performance measurement periods should be consistent with the relevant DNSP's current practice. The proposed change in the performance reporting period from a financial year to a calendar year would require:

- Substantial modification to the systems and processes that capture, collate and report the performance data. This is in additional to the time and resources that would be required to adjust or modify historical performance statistics which have previously been recorded and analysed on a financial year end basis; and

- Ergon Energy to separate its storm season which, falls between October and February, into two separate reporting periods. Financial year reporting more realistically captures the impact of weather events on system performance.

In light of the practical implementation issues and costs, Ergon Energy questions the value in aligning the reporting periods across states and is desirous of continuing its current practice of reporting on the basis of financial years.

6.10 Implementation Issues

Q12. The AER seeks views on the parameters, threshold levels, payment amounts and exclusion criteria in the GSL component of the proposed STPIS.

Ergon Energy notes that the GSL component of the Scheme will not apply to the Queensland DNSPs while the jurisdictional GSL scheme under the Electricity Industry Code continues to operate.

The appropriateness of 'streetlight repair' as a future parameter in Queensland is however questioned on the basis that:

- Street lighting services (relating to construction and maintenance of street lighting assets) do not fall within the Rules' definition of a 'distribution service' – i.e. "A service provided by means of, or in connection with, a distribution system"; and

- Both Ergon Energy and ENERGEX have proposed in their *"Proposal: Service Classification and Control Mechanisms"*, that these street lighting service be treated as an unregulated activity.

6.11 Data Collection

The accuracy of reported reliability data will vary according to different systems and processes adopted by various DNSPs in capturing, recording and collating of outage data. Ergon Energy believes that to verify the quality and consistency of its reported data, a DNSP should be required to stay within certain level of accuracy with narrow percentage of over and under estimations allowed. For example, under the Queensland Electricity Industry Code, Ergon Energy is required to achieve a ±5% accuracy in maintaining and reporting its performance data.

Clarification is also sought as to whether a DNSP's reported data requires external audit, the nature of such audit and its timing.

Ergon Energy believes that these issues should be clarified in the Scheme, rather than through a regulatory information instrument.