SP AusNet™
A member of Singapore Power Group

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Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
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Dear Chris,

RE: The STPIS Exclusion Regime

SP AusNet is requesting the Australian Energy Regulator (AER) reopen the AER's Service Target Performance Incentive Scheme (STPIS) Guidelines for consultation to allow consideration of an amendment to the scheme allowing discretion for the AER to consider alternative exclusion regimes proposed by DNSPs. SP AusNet considers such an amendment would result in a scheme that better aligns both with the national electricity objective outlined in the National Electricity Law and the objectives of the STPIS.

Specific Issue

Currently, the STPIS Guidelines do not provide for a DNSP to propose either a change to the exclusion methodology or a change to the exclusion Major Event Day Threshold applied in the existing methodology under Clause 2.2 (Proposals to vary the application of the scheme).

SP AusNet considers that there is legitimate public and private benefit reasons to vary the exclusion methodology and that the AER should be able to consider these as part of the assessment of a DNSP proposal.

Background

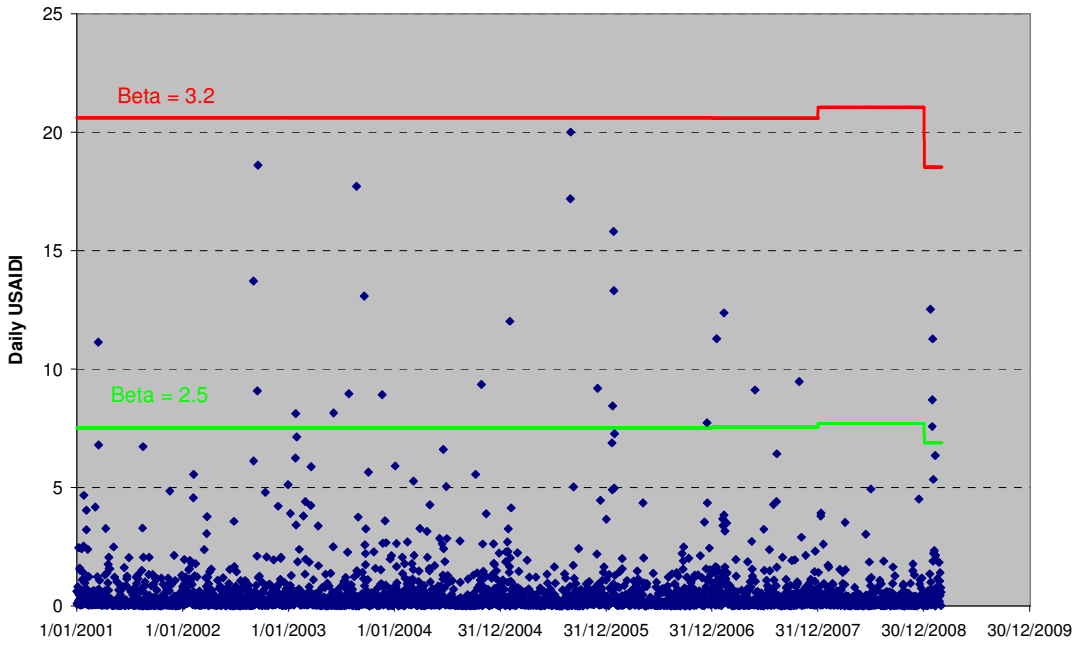
SP AusNet acknowledges that good reasons exist for the same exclusion regime to be applied to every DNSP, such as regulatory consistency and comparability. Therefore, SP AusNet strongly supports the current USAIDI exclusion methodology (IEEE Standard 1366-2003) and would only seek to change the threshold applied under that methodology. Furthermore, the existing USAIDI exclusion regime should remain as the safe harbour approach in the STPIS Guidelines.

However, inflexible thresholds are a different matter. Analysis undertaken on SP AusNet's network performance under the proposed regime suggests that the exclusion regime threshold (currently mandated at 2.5 beta) is, in fact, DNSP specific depending on the underlying nature of the network's condition and environment. This is not unexpected, as the IEEE Standard underlying the current approach is likely to have been calibrated against a pool of DNSPs' USAIDI performance.

For example, if a 2.5 beta is applied to SP AusNet's daily USAIDI performance over the last 9 years, the threshold excludes many days that are not extreme or unusual. As such, the performance on those days would, in fact, be within SP AusNet's ability to control or improve (see Figure below).

The analysis also shows that a threshold of 3.2 beta would expose SP AusNet to those days while still excluding extreme events.

Figure 1: 3.2 Beta versus 2.5 Beta Thresholds



Note: five large uncontrollable events, excluded using a 3.2 beta, lie off the scale above 25 minutes.

While SP AusNet strongly supports the current USAIDI methodology and would seek only to change the threshold applied under that methodology, a case for broader discretion may be appropriate. This was acknowledged in the AER Decision on Version 1.0 of the STPIS in June 2008 where it was stated that:

> *Where long run, reliable data sets available from DNSPs do not provide statistical results that are considered by the AER to be acceptable under the IEEE Standard 1366-2003, the AER will consider whether applying an alternative statistical method proposed by a DNSP would better meet the objectives of the STPIS. (page 20)*

SP AusNet is not proposing and would not support a move from an objective exclusion threshold measure to a subjective measure. SP AusNet notes that, for unforeseen and unquantifiable risks, broad discretion already resides with the AER to suspend the scheme in certain circumstances.

Satisfying the National Electricity Objective and STPIS Objectives

Allowing discretion for the AER to consider different exclusion regimes better aligns both with the national electricity objective outlined in the National Electricity Law and the objectives of the STPIS outlined in Section 1.5 of the STPIS Guidelines issued by the AER (specifically parts 1.5 a) and b) (5) and (6). These are reproduced below:

> ***7—National electricity objective***
>
> *The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to —*
>
> *(a) price, quality, safety, reliability and security of supply of electricity; and*
>
> *(b) the reliability, safety and security of the national electricity system.*
>
> ***1.5 AER objectives***
>
> *The AER objectives for this scheme are that the scheme:*
>
> *a) is consistent with the national electricity objective in section 7 of National Electricity Law (NEL);*
>
> *b) is consistent with clause 6.6.2(b)(3) of the NER which requires that in developing and implementing a service target performance incentive scheme, the AER must take into account;*
>
> *(1) the need to ensure that benefits to consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme for DNSPs*
>
> *…*
>
> *(5) the need to ensure that incentives are sufficient to offset any financial incentives the service provider may have to reduce costs at the expense of service levels*
>
> *(6) the willingness of the customer or end user to pay for improved performance in the delivery of services*

The reasons for this are as follows. Where a mandated 2.5 beta threshold results in too many days being excluded from a DNSP's performance, it potentially;

- allows a DNSP to cut expenditure without bearing the reliability consequences of those cuts as declining reliability will generally manifest as the high (excluded) USAIDI days getting worse. This conflicts with objective 1.5 b) (5); and

- reduces the incentive to improve performance as the improvement, which generally manifests in the high (excluded USAIDI) days getting better, is not reflected in the DNSPs actual performance against its targets. This conflicts with objectives 1.5 b) (1) and (6).

Therefore, where a threshold of 2.5 beta is not appropriate, given the distribution of a DNSP's daily USAIDI data, the existing STPIS does not ensure that the reliability customers actually experience is reflected in the business' S Factor revenue outcomes to the full extent possible (once the risk of extreme events has been adequately addressed). That is, only the most extreme (uncontrollable) events should be excluded to meet objective 1.5 b) (1) (5) and (6) of the AER's objectives for the STPIS.

With regard to the national electricity objective, an inappropriate threshold or exclusion regime discourages efficient operation and investment in reliability of supply of electricity for the reasons outlined above. Therefore, some flexibility in setting the exclusion regime would better meet the objective.

Conclusion

At a minimum there is a strong case for the STPIS to be reopened to consultation to consider an amendment to clause 3.3 of the STPIS Guidelines to allow a DNSP to propose an alternative exclusion regime subject to the proposal meeting the requirements of Clause 2.2.

Should you have any questions in relation to this matter please contact Tom Hallam on 9695-6617, also we would be happy to provide further information if required.

Yours sincerely,

Alistair Parker
Director Regulation and Network Strategy