

Submission to the Essential Services Commission

Re: Electricity Distribution Price Review 2006 – 2010 Draft Decision

Service Standards



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Distribution**

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TABLE OF CONTENTS

1	INTRODUCTION.....	2
2	RELIABILITY TARGETS.....	3
3	CONSISTENCY OF REGULATORY REPORTING.....	4
4	DIRECTORS SIGN OFF	6
5	CALL CENTRE PERFORMANCE	8
6	GSL PAYMENT SCHEME FOR APPOINTMENTS, NEW CONNECTIONS & PUBLIC LIGHTING	11
7	POWER QUALITY & DISTRIBUTION LOSSES.....	12
	7.1 Power Quality.....	12
	7.2 Distribution Losses.....	12
8	REPORTING REQUIREMENTS.....	13
	8.1 Health Card.....	13
	8.2 Metering Reporting Requirements	13
9	CONCLUDING COMMENTS	14

1 Introduction

As part of the 2006 Electricity Distribution Price Review (EDPR) the Essential Service Commission (Commission) has made a Draft Decision on service standards that is neither consistent with other aspects of its decision nor consistent with the approach taken by other regulators in setting service standards.

This submission sets out United Energy Distribution's (UED) response to the Commission's Draft Decision on service standards. The submission is structured as follows:

- Section 2 highlights the discrepancy in the draft decision between the proposed reliability targets and allowed capital and maintenance expenditure;
- Section 3 provides UED's comments on the consistency of the Commission's proposed reliability performance measures with National reporting requirements being developed;
- Section 4 details UED's objection to Director's annual sign off;
- Section 5 summarises UED's Call Centre proposal;
- Section 6 highlights UED's position on Guaranteed Service Level (GSL) funding in relation to appointments, new connections and public lighting;
- Section 7 provides UED's position supporting The Commission's Draft Decision not to include power quality events and distribution losses from the service incentive scheme;
- Section 8 provides UED's position on reporting requirements; and
- Section 9 provides some concluding comments.

2 Reliability Targets

UED flagged two key themes in its Price Service Offering (PSO) in relation to reliability targets, as follows:

- reliability targets must be specifically linked to capital and operating expenditure benchmarks; and
- reliability targets for the forthcoming regulatory period must take into account the impact on performance associated with planned interruptions over that period.

Whilst the Draft Decision has essentially adopted UED's proposed reliability targets the company cannot confirm its ability to deliver performance in accordance with those targets proposed until the targets are explicitly linked to the capital and operating expenditure benchmarks.

In this regard, UED considers that the Commission has made an error of fact in its Draft Decision by making substantial cuts to UED's operating and capital expenditure benchmarks and not making the appropriate corresponding adjustments to the company's reliability targets.

As stated in UED's submission on capital expenditure benchmarks, based on the allowed capital expenditure benchmarks the average age of the company's assets will rise to a substantially higher level and at a substantially higher rate than that which UED had planned to achieve through its Reliability and Quality Maintained capital expenditure programs. An ageing asset profile will ultimately lead to a deterioration in performance and subsequently the decline of service levels currently enjoyed by UED's customers.

The Commission has gone to great lengths to ensure that the price control does not provide explicit funding for an increase of network performance; rather the price control is intended to remunerate the company for costs associated with maintaining the current levels of reliability. The Commission has failed to provide adequate funding to maintain current performance (as explained in UED's submission on capital expenditure) and as a consequence, the Commission has erred by not adjusting UED's reliability targets to levels consistent with those substantially reduced expenditure benchmarks.

The Commission's Final Determination must either adopt expenditure benchmarks that are consistent with those proposed by UED, or re-set UED's reliability targets so that they reflect outcomes consistent with the aging asset base and deteriorating reliability that would be delivered by the Commission's proposed capital and operating expenditure benchmarks.

3 Consistency of Regulatory Reporting

In August 2001 the Commission wrote an open letter titled¹ National Alignment of Regulatory Reporting Requirements Request for Responses to Draft Proposals. It said:

“The Utility Regulators Forum agreed that jurisdictional economic regulators would develop a core set of nationally consistent performance reporting requirements covering the electricity industry. The principal purpose of nationally consistent performance reporting is to allow the benchmarking of the performance of distributors and retailers to be more effectively undertaken than is now possible”.

On page 4 of the “National regulatory reporting for electricity distribution and retailing businesses” draft proposal document² the definition of excluded event was discussed and the final approach adopted:

“Definition of excluded events—the draft proposals recommended use of a threshold number of customers affected by a supply interruption to define a major natural event to be excluded from the normalised measure of network reliability. Submissions were generally opposed to the use of an absolute number of customers. (The Steering Committee has accepted an alternative threshold whereby events are excluded if the outage exceeds an overall SAIDI impact of three minutes, and the outage is caused by an exceptional natural or third party event, the impact of which the DNSP cannot reasonably be expected to mitigate through prudent asset management.)”

In April 2003, the Office of the Tasmanian Energy Regulator issued a document titled “Improvements to Performance Reporting – Ascertaining Baseline Performance”. It adopted a major event day as one exceeding 2.5 Beta **SAIDI** method³. It excluded major day events that are above the threshold (calculated by the IEEE Beta method) from the baseline reporting.

In January the Queensland economic regulator (through the Queensland Government Department of Energy) issued the Electricity Industry Code. It specifically defines a major event day as one exceeding a 2.5 Beta **SAIDI** method.

In August 2005 the Minister for Energy and Utilities released the “Design, Reliability and Performance Conditions” for the NSW Distribution Network Service Provider’s (DNSP) which also quotes the IEEE Standard 1366-2003 for the definition of a Major Event Day being based on a 2.5 Beta **SAIDI** methodology.

Despite overwhelming support for the use of SAIDI in the definition of exclusions, the Commission recommends in the Draft Decision that SAIFI be adopted to define major day event. The Commission’s proposal is inconsistent with its own earlier statements

¹ Open letter, National Alignment of regulatory Reporting Requirements, 7 august 2001

² Utilities Regulators Forum discussion paper, March 2002

³ The IEEE Working Group developed the statistics based methodology referred to as the “Beta Method” for identifying Major Event Days and calculation of the threshold.



Service Standards

supporting the objectives of the Utility Regulators Forum in the development of nationally consistent performance reporting requirements.

In June 2004, the Australian Energy Market Agreement was implemented⁴. The objectives of the Agreement are set out in page 6. These objectives include the establishment of a framework of further reform to streamline and improve the quality of economic regulation across energy markets, to lower the cost and complexity of regulation facing investors, enhance regulatory certainty, and lower barriers to competition.

There is overwhelming national support for the use of SAIDI to define Major Day Event (MDE) and exclusion of MDEs from the operation of the S-factor scheme. The other 4 Victorian Distribution Businesses (DB's) also support the use of SAIDI.

Finally, there is a push through the national energy reform initiatives to streamline and improve the consistency of economic regulation and performance monitoring across the Australian energy market. The Commission's Final Determination must have regard to these important considerations, and in light of these considerations, the Final Determination should adopt SAIDI as the basis for defining events to be excluded from the S-factor scheme.

⁴ Dated 30 June 2004



Service Standards

4 Directors Sign Off

The Draft Decision states (at pages 79-80) as follows:

“The Commission requires that the distributors’ directors sign off on an annual basis that the distributors’ plans and processes will, for at least the next twelve months, ensure that the reliability of the network will meet or exceed the targeted reliability levels and that the underlying risks of a deterioration in reliability (that is, an increase in the probability of an interruption) are not materially increasing.

When submitting regulatory accounts, the distributors’ directors are required to sign off that the distributor will, at least for the next twelve months, have available to it the financial resources and facilities and management resources to ensure that the reliability of the network will meet or exceed the targeted reliability levels, and that the underlying risks of a deterioration in reliability (that is, an increase in the probability of an interruption) are not materially increasing.

At any time a distributor’s directors become aware that the underlying risks of deterioration in reliability (that is, an increase in the probability of an interruption) are materially increasing, they must advise the Commission.”

There are several confusing aspects of these proposed requirements.

First, it is not clear from the way the Commission expresses these “requirements” whether it believes that the distributors’ directors are already required to meet this requirement (either expressly or implicitly) or whether these are genuinely “new” requirements.

For example, the Commission appears to be implying that these requirements would give effect to what the directors are implicitly signing up to in any case when signing the regulatory accounts. If this is the Commission’s understanding, it is mistaken. The sign off of accounts by directors and auditors is implicitly about providing assurance on whether the business is likely to remain a going concern over the next twelve months (ie. there is no foreseeable events that would alter this situation). This is not necessarily the same thing as assuring that a business will always produce outputs consistent with customers’ needs. The proposed requirements would therefore be new and novel to say the least.

Second, as a practical matter, investment in reliability can only ever provide a certain level of confidence of meeting targeted reliability levels. It is simply not possible to ensure that “the reliability of the network will meet or exceed targeted reliability levels...”

Third, these statements are included in a section called ‘Other service incentive arrangements – long term reliability’. The implication would appear to be that these requirements would assist in ensuring the long term reliability of supply. Elsewhere in the Draft Decision, the Commission uses a reference point of 20 years to illustrate what it means by the long term. As a practical matter, it is not obvious how an annual sign off within a 12 month horizon would assist in ensuring reliability over the next 20 years.

UED has made it clear on a number of occasions that it is not averse to the introduction of stronger incentive mechanisms into the regulatory bargain. It remains of this view,



Service Standards

notwithstanding the concerns expressed above about these specific requirements. Indeed, UED has consistently advocated a more incentive based regime since regulation commenced.

However, UED's directors are not in a position to "sign-off" along the lines envisaged by the Commission, on the basis of the Draft Decision. The reasons for this are twofold:

- The directors cannot assume a responsibility for which there is no legal support: and
- The business cannot accept increased service performance risk exposure with a simultaneous reduction in its capacity to manage this risk.

The Commission has powers to regulate licensed entities operating in regulated industries under relevant legislation. It does not have power to impose obligations directly on directors of those entities. And nor does it need such powers. Directors are responsible for the day to day management of the licensed entities and the directors of UED naturally accord the highest importance to corporate governance responsibilities. Through such governance the directors manage the company's compliance with its regulatory obligations. There is no power nor need for direct obligations on directors.

Moreover UED has consistently made it clear that it cannot simultaneously be:

- Held more responsible for service performance; whilst
- Having its capital program determined on a basis that bears no relationship to the risks it would face.

The approach outlined in the Draft Decision would materially increase UED's risk profile, with no apparent corresponding compensation for bearing the increase in risk. The *quid pro quo* for bearing greater service performance risk has to be greater responsibility for setting the necessary capital requirements. Alternatively, some other form of compensation would be required.

We also note that the Draft Decision downplays the importance of proposed changes relative to the Position Paper, where the Commission presented the changes as a "new and major potential change to the regulatory" bargain. Regardless of how the Commission chooses to present these changes, the Commission's proposal substantially increases the business's service performance risk exposure, while simultaneously reducing its capacity to manage this risk. It could therefore hardly be of less importance.

UED's directors could not therefore be in a position to "sign off" along the lines envisaged by the Commission, on the basis of the Draft Decision.

5 Call Centre Performance

Originally, UED did not propose the inclusion of Call Centre measures in a financial reward/penalty scheme. Instead, as noted in its PSO (cited below) the company preferred to maintain Call Centre performance as a reporting measure:

“UED’s position to date has been that it does not support the introduction of a financial penalty / reward incentive specifically linked to the performance of the Call Centre. However, the company does support a regime under which performance targets are set, and the performance of the company relative to that target is monitored. Indeed, UED already provides information to the Commission on a quarterly basis regarding Call Centre performance. In addition the Commission may undertake an audit of UED’s performance as part of the annual reporting regime.

UED’s position is that it does not want to expose itself to further risk without understanding the value of these risks. This consideration is particularly pertinent given the asymmetric nature of the S-factor scheme, under which, amongst other things the company is exposed to a potential penalty that is substantially greater than the potential value of reward. UED does not support the Commission’s asymmetric value of risk/reward for the S-factor scheme and would not support one for the Call Centre.

In view of the importance of Call Centre performance to customers, UED would have no in-principle objection to the introduction of a penalty / reward incentive scheme, provided that:

- UED can satisfy itself that the scheme will deliver symmetrical outcomes in terms of potential rewards and penalties;
- the values placed on any rewards/penalties are appropriate;
- the performance is measured in an appropriate manner and at appropriate intervals; and
- all stakeholders see the introduction of such a scheme as being beneficial.

UED looks forward to the prospect of discussing this matter with the Commission in more detail, prior to the Commission finalising its view”.

Given UED’s earlier comments on this matter, the company is prepared to accept the Commission’s Draft Decision subject to the following caveats:

(a) Call Centre performance targets and clarification of service measures

The Commission has developed a model which has been applied to set UED’s annual target of Call Centre response for the 2006 – 2010 regulatory period at 77%. Based on supplementary information provided by the Commission, the formula used to calculate this target is:

$$\text{Percentage Calls Answered in 30 seconds} = (A-C)/A$$

Where,



Service Standards

A = Total Calls to Fault Line

C = Calls to fault line not answered in 30 seconds

UED supports this formula as it provides a simple representation of the performance of a Call Centre and is based on data that is readily available and currently being reported. However, the definition of the service measures in the current Information Specification⁵ should be clarified to explicitly include missed calls due to Call Centre reaching capacity in both the 'Total calls to fault line' and 'Calls to fault line not answered within 30 seconds' measures.

(b) Call Centre Overload Events and Exclusions

The Draft Decision does not state how Call Centre overload events arising from major day events would be excluded from the operation of the S- factor incentive scheme.

It is worth noting that a high SAIDI event may cause a large number of customers to ring the Call Centre for the duration of the interruption event. It does not necessarily mean that the Call Centre will be overloaded or customer calls will not be answered in a timely manner. It may be argued that a high SAIFI event may better characterises a Call Centre overload where customers may ring the Call Centre simultaneously thus causing the Call Centre to exceed capacity. While UED supports the use of unplanned SAIDI on a day as a exclusion methodology for the service incentive mechanism (S-factor) for reliability performance, it does not believe that SAIDI or indeed SAIFI is an appropriate measure to determine exclusion of certain Call Centre overload events arising from major day events from the operation of the S-factor incentive scheme.

Based on the existing Commission definitions, an overload event is an event where the Call Centre queuing system is inadequate to queue all incoming calls. UED did not experience an overload event in 2004, however the company has experienced 2 overload events in 2005. The first major event occurred in February 2005 where approximately 26,000 calls were not able to be received (ie. callers received an engaged signal), and a second major event in June 2005 when 3 zone substations servicing 20,000 customers simultaneously failed at 8am on a week day morning and approximately 1,700 calls were not able to be received.

UED experienced another major day event in July 2005 which impacted approximately 32,000 customers, but as the event occurred at 3pm on a fine Friday afternoon, the Call Centre was able to manage all calls by use of IVR and as a result, an overload event did not occur, unlike the previous event which impacted 20,000 customers.

Based on UED's experience with Call Centre overload events, UED does not believe the use of unplanned SAIFI measure is appropriate for determining exclusions of certain Call Centre overload events arising from major day events. UED believes the current daily unplanned SAIFI as proposed in the Draft Determination of 0.130 for UED (table 3.6) is excessive (as it equates to approximately 80,000 customers), and does not take into

⁵ Information Specification (Service Performance) For Victorian Electricity Distributors – December 2003



Service Standards

consideration other factors such as the time of day that the event took place and weather conditions. It is clear from the few examples mentioned above that Call Centre overloads occur well below the unplanned SAIFI threshold of 0.130. The above examples further illustrate the significance and influence the time of the supply outage has on Call Centre overloads.

As there are a number of factors that influence Call Centre overload events, UED believes a SAIFI or SAIDI exclusion threshold would not be satisfactory. UED proposes that the most sensible exclusion threshold would be to exclude a maximum of 3 Call Centre overload events per annum from the calculation of the Call Centre performance for the purposes of the S-factor incentive scheme. This would provide incentives to distributors to minimise Call Centre overloads by ensuring sufficient PABX capacity.

It is not viable to maintain zero overload events per annum as proposed in the Draft Decision. To achieve zero overload events per annum, UED would need to increase the number of ports available in UED's Faults Call Centre from 240 to 500, at a cost of \$600,000. UED does not support this approach as this would effectively result in a "gold plated" system.

UED recommends an increase to the Target for Overload Events to 3 events per annum. This would allow distributors the opportunity to optimise its Call Centre performance without the need to "gold plate" the system, but allows for events over which the distributor has no control (such as the time of day of a major event and weather conditions).

6 GSL Payment Scheme for Appointments, New Connections & Public Lighting

The Commission has introduced a new appointment classification of “day appointments”. These appointments are defined as appointments where “the customer or its representative is not required, and does not choose, to be in attendance”. It is not clear which of the service functions undertaken by a distributor is envisaged to be covered under this new classification. If the Commission intends to apply “day appointments” to Special Read Requests and Same Day Fuse Inserts, the Commission must have regard to the costs it would impose on distributors.

Retailers within the service order transaction normally request a specific date for the task to be performed. Same day fuse inserts are energisation jobs covered by Distribution Code, Clauses 13.1.2 and 2.5 (move in/ move outs & reconnection following disconnection). These functions were previously not covered by GSLs and generally do not require the customer or its representative to be in attendance.

Should the Commission extend the GSL payments for the same day fuse inserts, UED believes that it will not have a material impact on the GSL payments as the same day fuse inserts are generally undertaken within one day of the request in accordance with the Code requirements. Because of the importance of same day fuse inserts and the consequence to customers if these services are delayed, UED supports same day fuse inserts being classified as same day appointments.

However, the application of “day appointments” to Special Read Requests would have significant cost impact on UED. Due to the higher volumes of Special Read Requests and the low impact of special reads not undertaken within one day of requests, UED does not support the inclusion of Special Read Requests as same day appointments. Should the Commission determine that all Special Read Requests are to be classified as day appointments, UED would require additional expenditure of approximately \$230,000 (based on previous 6 months performance and annualised)

If Special Read Requests are not defined as same day appointments, there would be no material difference in GSL payments for appointments, new connections and public lighting for the 2006-10 regulatory period.



Service Standards

7 Power Quality & Distribution Losses

7.1 Power Quality

UED supports the Commission's Draft Decision to not include power quality events in the service incentive scheme as it is premature to do so. UED is also supportive of the introduction of classification breakdowns, of voltage variations less than 10 seconds duration, so as to provide additional power quality information. UED notes that power quality is an evolving area and many international standards such as IEC standards are still being developed and adopted into Australian Standards via Standards Australia. The responsibility to ensure electrical appliances function as designed, when connected to an electricity supply network, does not rest solely with distributor but also with electrical equipment manufacturers. The Commission should caution the mandate of conformance to international power quality standards without understanding their relevance to typical Australian network conditions. UED would welcome the opportunity to work with the Commission in refining power quality reporting in the 2006-10 regulatory period.

7.2 Distribution Losses

UED concurs with the Commission's Draft Decision to not include distribution losses in the service incentive scheme. Notwithstanding that UED wants to emphasise that it is our current network planning policy to include loss minimisation in the economic assessment of demand reinforcement projects, and to the extent justifiable, also in the purchase of new network equipment such as distribution transformers.



8 Reporting Requirements

8.1 Health Card

The Commission proposes to introduce a “health card” for each distributor in the annual Comparative Performance Report from 2006. UED has reviewed the arguments put forward by the Commission in the Draft Decision and it is not persuaded by them. However, UED proposes that the Commission should further consult on the measures and ratings before its introduction.

8.2 Metering Reporting Requirements

The Commission’s preliminary view set out in the its Position Paper required no less than 16 meter-related measures to be reported by the distributors. UED is please to note that in the Draft Decision the Commission has significantly reduced the number of reporting measures and has settled on four key measures. UED welcomes the reduced reporting measures.

9 Concluding Comments

UED's response to the Draft Decision on matters relating to service standards can be summarised as follows:

The Commission's Final Determination must either adopt expenditure benchmarks that are consistent with those proposed by UED, or re-set UED's reliability targets so that they reflect outcomes consistent with the aging asset base and deteriorating reliability that would be delivered by the Commission's proposed capital and operating expenditure benchmarks.

Despite overwhelming support for the use of SAIDI in the definition of exclusions, the Commission recommends in the Draft Decision that SAIFI be adopted to define major day event. The Commission's proposal is inconsistent with its own earlier statements supporting the objectives of the Utility Regulators Forum in the development of nationally consistent performance reporting requirements. The Final Determination should adopt SAIDI as the basis for defining events to be excluded from the S-factor scheme.

UED's directors are not in a position to "sign off" along the lines envisaged by the Commission, on the basis of the Draft Decision

UED supports the formula proposed for the purpose of Call Centre performance monitoring. However:

- the definition of the performance measures should be clarified to explicitly include missed calls due to Call Centre reaching capacity in both the 'Total calls to fault line' and 'Calls not answered within 30 seconds' measures; and
- the Target for Overload Events should be increased to 3 events per annum, to ensure that distribution businesses employ an economically efficient level of resources in Call Centre activities.
- UED does not support the application of "day appointments" to Special Read Requests in relation to the GSL payment scheme.
- UED supports the four key metering reporting measures.
- UED concurs with the Commission's Draft Decision to not include distribution losses in the service incentive scheme.
- UED welcomes the Commission's Draft Decision to not include power quality events in the service incentive scheme.
- UED proposes that the Commission hold further discussions in relation to the "health card" measures and ratings before its introduction.