

File No: D2004/0401

Alan Tregilgas Utilities Commission 5th Floor, 38 Cavenagh Street DARWIN NT 0800

By Hand

Dear Alan

#### Re: Developing a Standards-of-Service Framework Issues Paper

Please find attached Power and Water's submission in response to the Issues Paper. Power and Water supports the development of a formalised service standard framework and appreciates the opportunity to be part of the consultation process.

Power and Water considers that there are three practical stages in the implementation of a service standards framework:

- 1. Deciding what to measure, collecting the data and ensuring its accuracy.
- 2. Establishing performance targets for minimum standards and an incentive scheme, based on Power and Water's historical data.
- 3. The introduction of a Guaranteed Service Level (GSL) scheme, after a sufficient 'review' period.

Power and Water considers that the first stage in this process is critical before the second and third stages can be pursued. Additionally, the cost of ensuring that the recording and measurement systems are consistent and within an acceptable level of accuracy are likely to be very high.

Power and Water requests that the Utilities Commission removes the confidential responses contained in the submission prior to publication.

If you have any queries, please contact Lorraine Corowa, Commercial Advisor, on 8924 7444.

Yours sincerely

Kim Wood

Managing Director

November 2004

# Developing a Standards of Service Framework

Power and Water's Submission in response to the UC's Issues Paper



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# **Executive Summary**

Power and Water supports the development of a service standard framework in the Territory's electricity supply industry that both:

- recognises Power and Water's current service level to its customers; and
- sets appropriate and achievable benchmarks for Power and Water to further improve its performance over time, in line with customer expectations.

Power and Water currently measures its reliability, call centre and service quality performance and reports formally to its Board and Shareholder regularly. While the Utilities Commission's (UC) proposed framework is more encompassing than that currently in place within Power and Water, it is likely that they will be based upon the same measures and may rely upon similar data collection processes. In this regard, Power and Water is able to contribute to the development of a service standard framework.

Power and Water considers that there are three practical stages in the implementation of a service standards framework:

1. Deciding what to measure, collecting the data and ensuring its accuracy.

Power and Water believes that an accurate baseline of information is necessary before setting minimum standards, to ensure that the standards are realistic and achievable. While Power and Water's data has been sufficiently accurate and detailed for internal reporting, it may be insufficient for use as the basis for setting minimum standards, and a service incentive or Guaranteed Service Level (GSL) scheme. Power and Water need to verify data accuracy and ensure that recording and measurement systems are consistent across areas contained in the service standards.

2. Establishing performance targets for minimum standards and an incentive scheme, based on Power and Water's historical data.

Power and Water does not support using interstate data to establish targets, given the lack of a national approach to exclusions and problems with data accuracy in other States. A joint engineering study of Power and Water's historic reliability data (for example by the UC and Power and Water) would be preferable to selecting quick and possibly inaccurate service standards.

3. The introduction of a GSL scheme, after a sufficient 'review' period.

It would be more practical to restrict the initial service standard framework to monitoring and reporting for a period of time (stage 2) before service incentive and GSL schemes are introduced, to ensure that recording and measurement systems are consistent and within an acceptable level of accuracy. It would also give Power and Water, the UC, the Shareholder and the Government enough time to assess the cost and operational implications.

In addition to the above staged approach, Power and Water considers that the following issues require careful consideration in the development of a service standards framework:

- The cost of ensuring recording and measurement systems are consistent and within an acceptable level of accuracy are likely to be very high.
- Power and Water is aware that setting network service standards in non-competitive segments will, by default, affect contestable customers. However, Power and Water considers that the service standard framework should focus on franchise markets and not consider contestable segments. Competitive pressures should drive service standards in the contestable segments of the market and higher levels of service should be left to endusers to negotiate.

- Customers currently do not pay full cost for electricity services as the Government
  effectively subsidises retail franchise prices. An increase in service standards beyond
  reasonable efficiency gains would be contingent upon Government's willingness to provide
  and fund that level of service (through increased CSO funding or other transparent
  funding arrangements eg. acceptance of a lower rate of return), or on an increase in
  customer tariffs (which would be contingent upon customers' willingness to pay).
- Future capital investment decisions may be impacted by the current discussion regarding asset valuation methodologies (if Power and Water's asset base is reduced, there may not be an incentive to invest in the capital required to maintain or increase service standards). Service standards and asset values are therefore linked.
- Power and Water notes that the NT Government may have to grant the UC additional powers relating to the setting of service standards in contestable segments of the electricity market, and the implementation of an incentive scheme. This would require legislative changes, should these initiatives be pursued.

The format of this submission follows the format of the UC's Issues Paper, and should be considered in conjunction with Power and Water's operating framework, as outlined in Appendix A.

Power and Water requests that the Utilities Commission removes the confidential responses contained in the submission prior to publication.

# **CHAPTER 2: SCOPE OF FRAMEWORK**

#### **Commission's powers**

1. Are there any disagreements with the Commission's interpretation of its powers to develop and publish a standards-of-service framework (including as argued in Appendix A)? (page 4)

#### Non-contestable vs. Contestable

Power and Water is of the opinion that the Commission only has the necessary powers to impose a service standards framework in respect to electricity supply services to non-contestable customers. Notwithstanding this, Power and Water notes that setting network service standards in non-competitive segments will, by default, affect contestable customers. Reliability is measured on a feeder basis, and therefore there is no need to distinguish between customers that are supplied off the feeders.

The UC has indicated that it will seek to obtain the legislative power. This will require legislative changes should these initiatives be pursued.

#### Which elements of the electricity supply chain?

It is not clear within the *Electricity Reform Act* (ERA) as to which elements of the electricity supply chain (Generation, Networks, System Control and Retail) should be covered under a service standard framework. Section 92 of the ERA only provides for the imposition of minimum standards of service with respect to non-contestable customers, with the Retailer responsible for monitoring and reporting on the levels of compliance. It could be assumed that 'service' includes all components of electricity supply, however Power and Water believes this should only apply to electricity services to non-contestable customers.

#### **Negotiation of Network Access Agreements and Networks Pricing**

Power and Water agrees with the UC's interpretation of Clause 9A and Clause 68 of the *Network Access Code* (the Code), in that the Commission may impose service standards, above the levels prevailing during the year before the commencement of the Code, and must take those standards into consideration when setting a price cap.

The scope to negotiate network access services with network users should remain open, in particular for those users with the requisite bargaining power. These are typically large network users or users operating in the contestable market. Clause 68 is particularly important in that standards (and increased standards) should be recognised in network prices.

Differing network access services (regarding quality and reliability) can be negotiated with Power and Water. This is dependent on the network configurations and required service (usually to increase network redundancy and reliability).

It should be noted that under the Framework for the negotiation of discounted network tariffs, network access tariffs may be negotiated below approved tariffs where below standard services are provided or where there is a threat of network bypass.

2. What particular aspects of a framework may require a Ministerial pricing order or the making of Regulations? (page 4)

Power and Water recommends that the service standard framework potentially including penalties and rewards, should be contained in its own Code or Regulation and attached to each service provider's licence. Whatever form the framework takes it should be passed through parliament, and should apply to all licensees in the NT electricity market.

# **Discretions facing the Commission**

Separate standards-of-service frameworks or a single framework?

**3.** Are there any disagreements with the Commission's preference to develop a single, integrated standards-of-service framework to apply across the generation, networks and retail segments of the Territory's electricity supply industry (albeit possibly to varying degrees)? (page 5)

Power and Water is one legal entity even though it is ring-fenced for electricity market purposes. Power and Water's Customer Contract is currently between Power and Water 'the entity' and the non-contestable customer. Therefore Power and Water would prefer a single framework.

4. Should the Commission consider imposing minimum standards of service on competitive segments in the Territory electricity supply industry (i.e., generators and contestable retailers)? (page 5)

As noted previously in this submission, Power and Water considers that the Commission may need to seek powers to impose a service standards framework in respect to electricity supply services to contestable customers.

Network reliability is a feeder issue, not a customer issue and therefore there is no customer class distinction to be made in relation to networks. The minimum service standards relating to Network services will therefore naturally include all customer classes.

In terms of retail service standards, contestable customer contracts already include service standards where these are valued by the customer. The benefits of including the contestable customer segment in retail service standards are unlikely to exceed the costs.

With regard to Generation reliability, Power and Water cautions against the establishment of service standards for Generators without full consideration of the issues and operational complexities involved, such as the role played by System Control in load shedding and the impact of Independent Power Producers (IPPs).

If there were to be service standards in competitive segments (ie. Generation and Retail), they should apply to all competitors equally, so that Power and Water is not disadvantaged.

5. Should the standards-of-service framework be extended to apply to licensed entities other than Power and Water in the Territory's electricity supply industry? (page 6)

If minimum service standards are to be implemented throughout the NT, they should apply to all licensees in the electricity market (including isolated systems and non-indigenous communities). The framework could contain a mechanism for exempting particular licensed entities (eg. Alyangula).

6. Should any standards of service relating to networks be extended to apply to non-regulated networks and the provision of electricity through the IES scheme? (page 7)

Minimum service standards could be set for non-regulated, non-IES communities, however these should be lower than in regulated areas to recognise different operating environments. For example, most remote communities do not have additional capacity built into the system and

would require extensive capital investment to meet urban service standards.

IES services are provided under a fee for service arrangement with Department of Community Development, Sport and Cultural Affairs (DCDSCA). The level of payment from DCDSCA establishes the standards supplied to IES communities. Power and Water considers that it is a matter for the NT Government to decide if IES communities should be included in the service standard framework.

Standards of Safety as well as Standards of Service?

7. Is there any disagreement with the Commission's preference to leave safety-related standards to the Safety Regulator to determine? (Page 7)

There is no disagreement.

8. Are there safety issues that deserve the Commission's attention that are on the power system's side – as opposed to the customer's side – of a connection point? (page 7)

Power and Water does not consider that there are any safety issues on the power system's side of a connection point that requires inclusion in the service standards framework, as these are covered by Occupational Health and Safety Standards, Networks Connection Technical Code and *Electricity Reform (Technical and Safety) Regulations*.

# **CHAPTER 3: OBJECTIVES AND PRINCIPLES**

# To enforce minimum standards, or to encourage improvements in standards?

9. What relative emphasis should be given in the NT context to enforcing minimum standards relative to encouraging improvements in standards? (page 9)

Enforcement of minimum standards may merely ensure that minimum standards are maintained since there may be no incentive to expend resources to do otherwise. While some incentive already exists for Power and Water to improve services<sup>1</sup>, Power and Water agrees that a well thought out incentive scheme is an effective method to encourage further service improvements.

The cost of improving service standards beyond reasonable efficiency gains should be recognised. This cost would need to be funded by either:

- Increased tariffs (customer would end up paying for increased level of service); or
- Increased CSO funding (or other transparent funding arrangements with the NT Government eg. acceptance of a lower rate of return).

Prior to the introduction of minimum standards, a GSL or any incentive scheme, it will be important to establish baselines for the selected measures to assess performance.

Power and Water's data collection mechanisms are accurate to within an acceptable level of error for their current use, but have not been verified by an independent engineering consultancy. Power and Water's data may not be sufficiently accurate or detailed for use as the basis for an incentive and GSL regime.

It would be more practical to restrict the service standard framework to monitoring and reporting for a period of some years before a service incentive scheme is introduced, to ensure that the appropriate parameters are measured and that recording and measurement systems are consistent and within an acceptable level of accuracy.

# Principles

- 10. Are the principles the Commission proposes to observe in choosing among design options for the standards-of-service framework complete? Are there other principles considered to be important in the NT context? (page 11)
- 11. Are some of the principles identified considered to be more important than the others? (page 11)

Power and Water has no objection to the principles the UC has listed. Power and Water nominates the following principles (a combination of the SA and NSW key principles) as the most important in the NT context:

- *Customer preference* the framework should reflect service outcomes that are important to customers and be set at levels that reflect customers' reasonable minimum expectations of service delivery and the capacity of service providers to meet these. Customers' willingness to pay must also be considered.
- *Cost of obtaining reliable information* the framework should ensure that the cost of obtaining reliable data must be justified by the benefits to be gained.

<sup>&</sup>lt;sup>1</sup> Power and Water's performance is subject to considerable public scrutiny through regular reporting in the Statement of Corporate Intent, Annual Report, and comparative reporting to the Energy Supply Association of Australia (ESAA).

- *Reflect performance areas influenced by service provider* the framework should only relate to measures that the service provider can influence. A service provider should not be judged, or penalised, for standards of service problems outside its control.
- *Operational and environmental circumstances* the framework should account for the operating and environmental circumstances of the service provider.
- *Consistent incentives* the framework should ensure that the incentives for the regulated business regarding service standards are consistent with incentives in other aspects of the regulatory regime and do not weaken or conflict with more general protection provided at law.
- *Must not create perverse incentives* the framework should provide the desired impact on standards of service without introducing a possibility of 'game playing'.

## The NT context

12. Has the Commission covered all the elements necessary when it comes to defining "the NT context" for the purposes of devising a standards-of-service framework? (page 11)

In addition to those factors that the Commission has already specified (ie. vast distances, small customer base, radial nature of the system, remoteness, heavy storm activity and high incidence of lightning strikes), the NT context should also account for:

- Other environmental problems affecting our systems, eg bats and termites.
- The lack of network interconnections.
- Different legislative environment and market design.
- The considerable distances between urban service centres and remote communities and the lack of all-weather access.
- No major industrial customers that can be switchable or that are interruptible.
- Changing market conditions for example new market entrants. In this regard, the framework should be able to accommodate all entities whether vertically integrated (like Power and Water) or not.

# CHAPTER 4: MEASURING STANDARDS OF SERVICE

### Elements of a standards-of-service framework

Reliability

# 12. Which measures of reliability should be included in the Territory's standards-of-service framework? (page 15)

Power and Water supports the use of SAIDI, CAIDI and SAIFI as network service standards. These reliability measures have been endorsed by the Utility Regulators Forum (URF) and form the basis of Power and Water's current internal reporting processes. SAIDI and SAIFI are also used as reporting mechanisms in the Statement of Corporate Intent agreed between the Board of Power and Water and the Shareholding Ministers under the *Government Owned Corporations Act*.

With regard to Generation reliability, Power and Water separately identifies those outages attributed to Generation events. However, Power and Water cautions against the establishment of service standards for Generators without full consideration of the issues involved, such as reserve plant margins, spinning reserve or alternative sources of gas supply. The cost of complying with standards relating to these measures could be considerable.

In addition, there are some operational complexities that will require analysis, in particular how the role played by System Control in load shedding is to be taken into account in measuring network outage statistics like SAIDI, SAIFI and CAIDI.

Power and Water are available to discuss the Generation reliability issues further.

13. Would the technical and cost implications of including MAIFI in the standards-of-service framework be justified in the Territory? (page 15)

Power and Water does not support the inclusion of MAIFI reporting as part of the network service standards. This is because:

- while Power and Water does collect MAIFI data, it is of variable accuracy. In order to
  commence proper data collection, communications infrastructure would need to be installed
  on feeders at considerable cost; and
- Power and Water is aware that many distributors have similar accuracy issues with recording MAIFI data. Power and Water is not aware of any jurisdictional regulators that have service standards for MAIFI. While this is not in itself a reason to avoid MAIFI standards, it is illustrative of the difficulties involved.

Power and Water acknowledges that momentary interruptions are a significant source of annoyance for customers. Power and Water does not consider, however, that momentary interruptions are a significant problem in the Northern Territory. While the data is of variable accuracy, records indicate that system-wide MAIFI was 2.82 (average interruptions per customer) on Power and Water's Darwin network over the year to September 2004. This is not a high number when it is considered that each interruption lasted less than 1 minute.

#### Poorly Performing Network Segments

14. What measures should be adopted in the Territory's standards-of-service framework to indicate reliability in poorly performing sections of the network? (page 16)

Power and Water does not object to reporting SAIDI and SAIFI data for worst performing feeders

in regulated areas because:

- This data is readily available within Power and Water and it is included in regular reports to senior management; and
- It is consistent with reporting regimes in other jurisdictions, such as Victoria, Queensland, Tasmania and South Australia.

It should be noted that often the poorer performing feeders are also the least loaded, serving lowdensity customer areas.

#### Quality of Supply

- 15. Which of the various service quality measures identified by the Commission should be given the highest priority in the Territory's standards-of-service framework? (page 17)
- 16. Are there other measures of service quality that deserve to be considered? (page 17)

Power and Water does not object to reporting network 'quality of supply' indicators.

Voltage variations can have impacts on customers. Power and Water acknowledges that these variations are inconvenient for customers and strives to eliminate them where it can. As is the case with most distributors, Power and Water attends to voltage problems as soon as it becomes aware of them, mostly following a complaint by a customer. Over the year to November 2004, Power and Water received 170 voltage complaints – all were attended and approximately 150 were actually attributable to voltage problems.

Power and Water notes that while voltage can be measured at individual customer premises, there is no cost effective way of aggregating individual customer voltage data and reporting on it at a system-wide level. On this issue, the Utility Regulators Forum has also noted:

"While voltage levels are subject to an increasing number of complaints (due partly to the sensitivity of customer equipment) there is currently little relevant data collected, and no means of translating data into performance measures."<sup>2</sup>

As a consequence, Power and Water understands that most jurisdictions are currently using the number and nature of complaints made by customers as a proxy for assessing the quality of supply. Power and Water would not object to a similar process in the NT.

Detailed voltage complaint data is not collected within Power and Water, however systems could be established within a short time frame if required. It may take some time to establish norms that could be used as a basis for comparison with other states, and as a basis for improvement in standards.

17. Might monitoring of customer feedback alone as to service quality be sufficient? Or should quantitative primary data be reported rather than relying on secondary customer reporting of problems? (page 17)

As noted above, Power and Water considers that customer complaints are currently the only cost effective indicator of quality of supply performance.

From an operational perspective, Power and Water does not consider that voltage problems are a significant source of customer dissatisfaction. This is because:

• Power and Water does not have significant capacity constraints on its feeders, and therefore "browning out" is very uncommon;

<sup>&</sup>lt;sup>2</sup> Utility Regulators Forum (March 2002), op cit, page 5

- Power and Water attends to customer complaints promptly and resolves all issues brought to its attention by installing upgraded infrastructure if a voltage problem is verified; and
- There is not a great number of voltage complaints over the year to November 2004, 0.3-0.4% of customers across all networks registered a voltage complaint.

#### Customer Service

- 18. Which two or three of the various customer service measures identified by the Commission should be given the highest priority in the Territory's standards-of-service framework? (page 17)
- 19. Are there other measures of customer service that deserve to be considered? (page 17)

The measures identified by the UC, including call centre performance, provision of connections, planned interruptions and general complaints, are consistent with that adopted by other Regulators in other States. Power and Water's monthly internal reports currently include detailed reporting on complaints and call centre performance. Power and Water recommend that these two measures are included in the service standards framework.

New processes would need to be introduced if any additional customer service measures were to be proposed.

#### Data Segmentation

- 20. Is there a need, in the NT context, for segmentation of standards of service data? (page 18)
- 21. What are the appropriate categories for segmentation in the Territory? (page 18)

Power and Water supports the segmentation of network data into Long Rural, Short Rural and Urban (including CBD). These definitions are supported by the Utility Regulators Forum<sup>3</sup> and are in use by Regulators in other States.

There will be a need to take account of some issues specific to Power and Water in adopting these feeder classifications. These are that Power and Water:

- does not currently have any long rural feeders. This classification is superfluous for the present;
- considers that IES communities should be excluded from the calculation of data for short rural feeders. This is because:
  - Capital and operational expenditure programs, and hence service standards for these feeders are currently administered by DCDSCA; and
  - In any event most of the networks in remote areas do not have monitoring equipment for outages and record keeping is of limited accuracy.
- has a very long "short rural" network, making comparisons with other distributors difficult; and
- has CBD feeders that cannot be isolated from urban feeders (with the exclusion of Darwin), and therefore are included in Urban.

<sup>&</sup>lt;sup>3</sup> "National Regulatory Reporting for Electricity Distribution and Retailing Businesses" published by the Utility Regulators Forum, March 2002, page 7

# **CHAPTER 5: ESTABLISHING BENCHMARKS**

### Setting target performance levels

#### Floor (ie. minimum level) Targets

22. How should minimum standards of service be determined in the NT context? What should be the relative role played by company-specific versus comparative data? (page 20)

Power and Water is hopeful that the setting of any minimum service standards will be consultative, and that the use of benchmarking data is directional rather than determinative.

Power and Water has (or can source) the data necessary to assist the UC in setting the standards, both in understanding and defining an accurate measure of existing service and in considering what is achievable, and at what cost, over time. A consultative process may therefore be necessary to:

- Set the appropriate framework for the service standards. Service standards could be set as mandatory minimums or voluntary targets. While Power and Water has a preference for voluntary targets, this does not appear to be being considered in the Issues Paper. Notwithstanding this, Power and Water has no objections to mandatory minimum standards. Power and Water will retain the ability to set higher internal targets for itself and with the Shareholder (as part of the SCI process) or indeed offer to provide a different quality of service than the mandatory minimum standards if it agrees these with customers. Careful consideration would need to be given to whether the standards should apply to every customer in the NT, irrespective of their geographic location, or whether they are part of the regulated network or not;
- Ensure that the data set used to measure the numerical standards is accurate to +- an acceptable level. Power and Water is aware that interstate distributors are experiencing large increases in reported SAIDI due to the cleansing of data processes. Reported SAIDI for some feeders have increased by up to 40%, due to the introduction of more sophisticated reporting programs and processes which are replacing what has traditionally been an inexact science for distributors;
- Ensure that benchmarking information is appropriate. Power and Water does not support using interstate data given the lack of a national approach to exclusions (for SAIDI, SAIFI and CAIDI), problems with data accuracy in other States, and Power and Water's unique operating circumstances (eg. environment, lack of interconnection, customer profile). Power and Water considers that a detailed study and utilisation of Power and Water's historic data would be preferable to selecting inappropriate and inaccurate benchmarks, which may prove unworkable over time;
- Ensure that the standards are achievable. It is preferable to set service standards at levels that recognise Power and Water's current service level (and so do not seek unrealistic, immediate performance gains) but which encourage Power and Water to improve its performance over time, particularly to those customers who are currently receiving the poorest levels of service. It should also recognise that there is a cost to improving standards of service. This is particularly the case with Power and Water, which already has a well funded and regular vegetation management program and therefore has already achieved the 'quick wins' that some interstate distributors have achieved by increasing their efforts in this area;
- Ensure the standards are flexible. The service standard regime should build in appropriate
  flexibility to allow the nature and level of service standards over time to be amended where
  required.

It should be noted that there is currently no legislative provision to hold property owner's responsible for the clearance of vegetation around powerlines. This may need to be reviewed

before the implementation of a service standards framework, as it impacts on Power and Water's service delivery. Power and Water would also need to obtain statutory easements for existing powerlines on public roads to provide greater asset management control and therefore control over service standards.

#### Ceiling (ie. aspirational level) Targets

23. How should targeted improved standards of service be determined in the NT context? What should be the relative role played by comparative targets versus continuous improvement targets? How might such targets be best determined? (page 20)

As mentioned above, Power and Water's data collection mechanisms are accurate to within an acceptable level of error for their current use, but have not been verified by an independent engineering consultancy. Power and Water's data may not yet be sufficiently accurate for use as the basis for an incentive and GSL regime.

Power and Water considers that there should be three stages in determining the service standards regime:

- Deciding what to measure, collecting the data and ensuring that it is accurate enough to set standards of service;
- Establishing performance targets for minimum standards and an incentive scheme, based on historical data; and
- The introduction of a GSL scheme, after a sufficient 'review' period.

Power and Water considers that the first stage in this process is critical before the second and third stages can be pursued.

#### **Customer preferences**

24. What issues should be considered in balancing customer preferences with compliance cost incurred by service providers? (page 21)

Power and Water considers that service standards should reflect measures that:

- Customers value the standards should be service outcomes that are important to customers and be set at levels that reflect customers' reasonable minimum expectations of service delivery and cost (ie. what value they are actually prepared to pay);
- Power and Water can deliver the minimum standards should be of a nature and level that Power and Water can reasonably be expected to provide to its customers. This may mean that standards vary by level and service area and are gradually increased over time, given Power and Water's current performance level, and any time needed to improve performance in accordance with long-term targets; and
- 3. *Can be readily measured and reported* there is a need to readily quantify and report on service standards in order for them to be useful as either an absolute or relative measure of performance and customers' service experiences.

These three principles underpin considerations of the appropriate balance between consumer preferences and performance cost.

The costs involved in conforming to a service standard regime can be significant, depending on the design adopted. Following a review of interstate regimes, Power and Water considers that:

 There is likely to be minimal costs in service standard reporting – performance against many of the standards that the UC has suggested are already reported in house as part of Power and Water's management reporting processes. While some measures, for example missed appointments, are not currently recorded by Power and Water, these could be introduced without significant compliance costs. Power and Water notes that there may be an issue with the accuracy of current SAIDI, SAIFI and CAIDI reliability measurement which could involve costs however this has not been quantified at this stage.

- There is likely to be high costs in setting and being obliged to **meet minimum service standards**. Power and Water believes that an accurate baseline of information is necessary if the UC is to set minimum standards as a licence condition. This is necessary in order to ensure that the standards are realistic and achievable. This would require:
  - For network reliability measures, ensuring that Power and Water's data recording and measurement systems for urban and short rural feeders in all locations are consistent and within an acceptable level of accuracy. This could take some time and cost to accomplish;
  - For non-reliability measures, establishing a dataset for measures that are not currently reported, ensuring that the dataset for currently reported measures is accurate and ensuring that recording and measurement systems are consistent across all areas.
- There is likely to be very high costs in setting and being required to meet GSL payments. As well as setting a baseline of information, the detail and operation of the GSL mechanisms could impact significantly on Power and Water's costs for:
  - Reliability GSLs measurement systems will need to provide daily SAIDI, SAIFI and CAIDI records, and a data connection will need to be made between a particular asset and the identity of a particular customer. In other jurisdictions, the distributor must pay a GSL when that customer has experienced more than the allowed number of outages. The distributor must therefore make a link between a recorded outage on a feeder or transformer and that particular customer in order to verify the claim. Verification of numbers and duration of outages for a particular customer is therefore a high cost exercise for distributors. This could also take some time to accomplish. Power and Water supports a GSL scheme, however the compliance and systems costs are a concern. How generation outages will be treated also needs to be made clear;
  - Non-Reliability GSLs If the framework in New South Wales and Victoria is adopted in the Northern Territory, Power and Water will need systems to pay customers that have not claimed for GSLs. This can be a high cost exercise in identifying customers which are eligible for GSLs if, for example, Power and Water discovers that it has not mailed out a notification of a planned outage within an acceptable time period and that this has impacted hundreds of customers. Measures to counter fake and duplicated claims will also need to be established.

25. Is a customer survey the best way of establishing customer preferences? What other options are available? (page 21)

Power and Water is aware that customer surveys have been used in other jurisdictions as a way of establishing customer preferences. Power and Water acknowledges that customer surveys are probably the best way of establishing customer preferences, however Power and Water does not support the use of customer surveys to determine service standards because:

- Customer surveys are expensive, as they require professional drafting, analysis and interpretation. Power and Water is aware that consultancies costing in the hundreds of thousands of dollars are not unusual in determining consumer preferences, and this would appear to be excessive in the NT context. Additionally, it may be necessary to carry out the survey in every NT centre to establish whether there are regional variations;
- Customer surveys are a static measure of a dynamic issue. Customers may not complain
  about reliability when the survey is taken but may find service standards unacceptable once
  an additional appliance, for example a computer, is purchased. A survey that states that
  customers do not value reliability in a particular area may therefore be out of date very
  quickly. Power and Water would prefer to determine appropriate standards based on what it
  can realistically achieve, rather than what customers report they would like to receive at a

point in time;

- Customer surveys are not always appropriate on equity grounds. A customer that does not
  value an increased standard of service should still be entitled to a minimum standard of
  service. Using customer surveys to set standards may be contrary to public policy initiatives;
  and
- Customer surveys are often used to value improvements in service on a dollar basis, and in doing so generally ignore the fact that retail prices are subsidised. Power and Water considers that customers are generally unaware of the full cost of their service and therefore may not be in a position to judge the additional amount they would pay for an additional minute on supply.

# **CHAPTER 6: REGULATORY INSTRUMENTS**

#### Monitoring and reporting

26. Would the periodic publication of standards-of-service information against set benchmarks be a sufficient form of regulation in the NT context? (page 24)

Power and Water considers that service standard reporting provides both transparency in relation to good service, and accountability in relation to poor aspects of service. For this reason, Power and Water supports the concept of reporting to the UC and the public on key performance measures. Power and Water agree that the monitoring and reporting of Power and Water's service standards against targeted levels would be a sufficient form of regulation in the NT context.

#### 27. Who should publish, and how frequently, such standards-of-service information? (page 24)

The publishing of service standards information should be a function of the Utilities Commission.

Power and Water is prepared to report its performance to the UC for publication on an annual basis. Reporting on a more frequent basis would be costly and, in Power and Water's opinion, unnecessary.

28. What guidelines should the Commission adopt concerning the nature of publication of such information and the associated documentation? To what extent should comparable information (from prior periods or other comparable networks) be included in the publication? (page 24)

Performance reporting should include:

- services that are important to customers;
- the extent to which standards of service are influenced by factors not under the direct control of the service provider, so as to appropriately attribute responsibility for performance;
- explanations and justifications by the service provider; and
- contextual information of the service provider (eg. information on the characteristics of the service provider's assets and customers).

Power and Water does not object to the inclusion of comparable information from prior periods, but would be cautious of the inclusion of information from other networks. Power and Water does not support using interstate data for comparisons, given the lack of a national approach to exclusions (for SAIDI, SAIFI and CAIDI), problems with data accuracy in other States, and Power and Water's unique operating circumstances (eg. environment, lack of interconnection, customer profile).

As noted previously in this submission, Power and Water considers that a detailed study and utilisation of Power and Water's historic data, in order to determine what can be achieved over time, would be preferable to selecting inappropriate and inaccurate benchmarks which may prove unworkable over time.

29. Might it be necessary to restrict any regulatory regime to monitoring and reporting for a period of years, before consideration is given to adding service incentive mechanisms and penalties (as canvassed below)? (page 24)

Power and Water agrees that a monitoring and reporting framework should be implemented for a period of time before an incentive and GSL scheme is introduced. This will ensure that feeder

recording and measurement systems are consistent and within an acceptable level of accuracy. Power and Water considers that an accurate baseline of information is necessary in the setting of minimum standards, and notes that this will take some time to achieve.

It will be more practical to introduce a service incentive scheme at a later date, giving Power and Water, the UC, the Shareholder and Government enough time to assess the cost and operational implications.

#### Service incentive mechanisms

Price Control Adjustments in response to service performance

**30.** What scope is there in the Territory's standards-of-service framework for a revenue/price cap adjustment mechanism similar to the Victorian regulator's S factor? (page 27)

Fundamentally, Power and Water does not have a problem with the introduction of a price cap adjustment mechanism similar to the Victorian regulators S-Factor. It is important that all parties are aware that this may result in an increase in tariffs or CSOs (or other transparent funding mechanisms).

#### **Customer Compensation Payments**

31. What role should Guaranteed Service Level payments play in the Territory's standards-ofservice framework? (page 27)

Power and Water wishes to note the distinction between Guaranteed Service Level (GSL) payments and '*compensation'* payments for power outages. GSLs are an amount paid to customers that receive service levels below a predetermined threshold. GSL payments are not in any way related to the actual dollar value of the customer's losses. Compensation for power outages involves customers making reasonable claims for damaged food etc when the power goes out (normally handled under a different process, via an insurance claim).

Power and Water is supportive of the concept of GSLs, but is concerned about of the compliance and establishment costs in enhancing systems and administering the scheme. As noted previously in this submission, these costs are likely to be significant.

Power and Water's information systems do not currently collect the information necessary to determine which individual customers are affected by an outage, and for what duration. Establishing systems that will record this information within an acceptable level of accuracy will be expensive and could take several years.

Therefore, Power and Water recommends restricting the framework to monitoring and reporting for a period of time, before a GSL scheme is introduced.

Regardless of when the GSL scheme is implemented, it should:

- apply across the board to all market participants;
- be in the NT context;
- be well thought out and supported with appropriate systems;
- exclude events that are outside of Power and Water's control (eg. cyclones, bat infestations); and
- take into consideration Power and Water's previous contractual arrangements made before contestability and any future directions given to Power and Water by the NT Government.

#### 32. a) What types of service should be subject to GSL treatment? (page 27)

Power and Water notes that NSW and Victorian GSL schemes are limited to:

- Network reliability;
- Notification of planned interruptions;
- Connections;
- Reconnections; and
- Appointments.

If the UC was to proceed to introduce GSLs, Power and Water proposes the above-mentioned types of services as the sole basis for a GSL scheme. Power and Water would like to approach the selection of these GSLs on a case by case basis. This would allow Power and Water to conduct the necessary assessments of the systems and implementation costs associated with each GSL.

Power and Water recognises that NSW and Victorian schemes also include fixing streetlights within X days following a customer report. Power and Water considers that at this stage, it may be more appropriate to wait until current streetlight ownership and cost negotiations have concluded.

#### 32. b) How should the level of any GSL payments be determined? (page 27)

Power and Water considers that the level of GSL payments, and the standards that should be set for GSLs, should be developed in consultation with Power and Water.

In particular, the following issues need to be discussed:

- the financial impact on Power and Water of setting a GSL equal to the minimum service standard levels (as suggested in the Issues Paper, paragraph 6.19), as the minimum standards may be calculated on an average;
- the implications of customer definitions. For example, whether GSLs are paid to aggregated accounts per customer site; and
- GSL caps, which limit the amount that can be claimed by a customer over a year. These caps are in place in NSW and will be introduced in Queensland.

#### 32. c) Should GSL payment be automatic or customer initiated? (page 27)

Power and Water would support payment for all GSLs to be customer initiated.

Power and Water notes that this issue was recently considered by the NSW Independent Pricing and Regulatory Tribunal (IPART). IPART accepted the distributors' argument that they do not currently have appropriate systems to allow them to measure accurately which customers have been affected by electricity outages. Rather, information is generally currently only available at the individual feeder level, and in some cases, the distribution sub-station level.

In addition, switching operations in suburbs may result in customers being on a different feeder for periods of time that may happen to coincide with an outage on a feeder to which those customers have temporarily been assigned.

As a result, making payments to all customers potentially serviced by a feeder could result in some customers being paid amounts that they were not entitled to, and others not being paid amounts that they should have rightly received.

Power and Water's information systems do not currently collect the information necessary for them to know which individual customers are affected by an outage, and for what duration.

In relation to non-reliability GSLs, Power and Water notes IPART's conclusion that automatic payments should be made by the distributors. This would be difficult for Power and Water to accommodate, as it would require manual inputs and programming amendments into Power and Water's Retail Management System (which also contain some network information). Additionally, Power and Water has one Customer Contract that contains all service standards for all Power and Water businesses. For these reasons, Power and Water does not support automated distributor payments for non-reliability measures in the Northern Territory.

19

# **CHAPTER 7: NEXT STEPS**

# **Development Stages**

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33. What are the views of interested parties regarding the merits of the Commission adopting the proposed timetable (and associated sequencing of stages)? (page 31)

Power and Water agree to the timeframes proposed by the UC.

# APPENDIX A: POWER AND WATER'S CURRENT OPERATING FRAMEWORK

Customer Contract (Retail Licence), SCI (GOC Scrutiny Committee)



Co-ordination Agreement (req. by licences)

SERVICE STANDARDS FRAMEWORK