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Mr Andrew Reeves
Utilities Commissioner
Utilities Commission
GPO Box 915
Darwin NT 0801

Dear Andrew

Re: Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers – Power and Water’s Response to Draft Report

Thank you for the opportunity to comment on the Utilities Commission’s Draft Report of its Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers.

Power and Water’s response to the Draft Report is at Attachment A.

While supporting the introduction of a guaranteed service level (GSL) scheme in the Northern Territory electricity market, there are a number of matters that Power and Water requests that the Commission consider further prior to finalising the GSL scheme’s design.

With respect to a financial incentive scheme, Power and Water looks forward to being provided with further details prior to the commencement of the proposed paper trial.

Please contact Ms Djuna Pollard, Manager Regulation, Pricing and Economic Analysis, on (08) 8985 8431 should you have any questions or require further information.

Yours sincerely



Andrew Macrides
Managing Director

6 July 2010

**REVIEW OF OPTIONS FOR IMPLEMENTATION OF A CUSTOMER
SERVICE INCENTIVE SCHEME FOR ELECTRICITY CUSTOMERS**

**SUBMISSION BY POWER AND WATER IN RESPONSE
TO DRAFT REPORT BY THE NT UTILITIES
COMMISSION**

JULY 2010

This report contains 9 pages

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1 Introduction

- 1.1 This paper is Power and Water's response to matters raised by the Commission in its Draft Report titled 'Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers', released in May 2010.
- 1.2 Power and Water supports the introduction of a guaranteed service level (GSL) scheme in the Northern Territory, and notes that the Commission's Draft Report has adopted the majority of design elements proposed by Power and Water. There are, however, a number of other matters that Power and Water seeks further consideration by the Commission, and these are outlined below.

2 Power and Water's Response to Matters Raised in the Draft Report

GSL Design Elements Supported by Power and Water

2.1 The following table shows the reliability and customer service indicators, thresholds and payment amounts that are supported by Power and Water.

Table 1: Service Performance Measures for a Northern Territory GSL Scheme

Performance Indicator	Threshold	GSL Payment
Frequency of unplanned outages	CBD and urban networks: more than 12 outages in a 12 month period	\$80
	Rural short and rural long networks: more than 16 outages in a 12 month period	\$80
Duration of a single unplanned outage	More than 12 hours and less than 20 hours	\$80 per event
	More than 20 hours	\$125 per event To a maximum of \$300 in a 12 month period
Failure to establish a new connection within a specified time	Within 24 hours to an existing supply within major urban centres Within 5 business days for supply to a property in a new major urban subdivision (where extension or augmentation is not required)	\$50 per late day, up to a maximum of \$300
Failure to give sufficient notice of planned outages	At least 4 business days notice	\$50
Failure to respond to a (network related) written enquiry within a specified time	Within 2 weeks of receipt	\$80

2.2 Power and Water proposes some variation to the threshold descriptors, as shown in bold in Table 1 above.

- The GSL scheme should only apply to unplanned outages. Including planned outages in determining performance levels would effectively be penalising service providers for taking prudent action to repair and maintain assets.
- Distinguishing between 'CBD and urban networks' and 'rural short and rural long networks' will be more informative and useful for customers than the current interconnected and radial terminology. This is also consistent with terminology used in other jurisdictions.
- Specifying the threshold for new connections in urban subdivisions as being within five business days where no extension or augmentation is required is an important clarification for customers.

GSL Design Elements Requiring Further Consideration

Inclusion of generation

- 2.3 Power and Water reiterates that, consistent with GSL schemes in other jurisdictions, generation should be excluded from a Northern Territory GSL scheme. In the absence of any benchmarks, it would be difficult to set appropriate generation targets and thresholds for a GSL scheme.
- 2.4 System Control's load shedding practices are such that, wherever possible, customers are affected equally when an unplanned generation outage occurs. Therefore, the benefit that the Commission envisages by including generation reliability in a GSL scheme will not be apparent. This, combined with the Commission's acknowledgement that poor generation reliability is unlikely to ever trigger a GSL payment, casts doubts on the merits of including generating reliability measures in a GSL scheme. Further, System Control load shedding practices should not be influenced by a GSL scheme and potential payments to customers.
- 2.5 In addition, Power and Water's response to the Commission's Issues Paper of its Review of Electricity Standards of Service highlights the mechanisms that already exist to monitor and improve generation reliability. These include provisions in the System Control Technical Code and the Secure System Guidelines, and public reporting under the Standards of Service Code and through the Energy Supply Association of Australia (ESAA).
- 2.6 The Commission would be aware that there are a myriad of rules and requirements that generators must comply with to operate in the NEM and these are monitored by the Australian Energy Market Operator (AEMO). While such a framework does not exist in the Northern Territory at present, the Commission will be reviewing the role and functions of System Control in the Territory, including issues related to system planning. This is likely to lead to reforms that improve generation performance.
- 2.7 Paragraph 3.14 of the Draft Report states that "Territory customers experience regular outages due to poor generation performance". This statement is incorrect as evidenced by Power and Water's 2008-09 Standards of Service Report where national benchmarking data from ESAA showed continual improvement in its generation reliability performance, as well as the fact that there are other jurisdictions with higher forced outages.

Cumulative duration of outages

- 2.8 Power and Water queries whether the Commission has considered the systems and administrative capabilities required to record the cumulative duration of outages experienced by each customer. The data limitations already advised to the Commission, compounded by the transient nature of the population, mean that it is very difficult to accurately record the cumulative duration of outages experienced by each customer. For example, Power and Water systems can not track a customer across multiple addresses within a year. If this target was to be introduced, implementation may only be possible for customers with a single address in a year, as cumulative outages can only be summated for a single location.
- 2.9 If a cumulative measure is included, then it should only be for unplanned outages. Planned outages are a necessary operational requirement to undertake repairs and maintenance to ensure continued serviceability of network and generation assets.

Scheduled appointments

- 2.10 If the Commission insists on including 'failure to keep a (network related) appointment on time' within the scope of the GSL scheme, then there should be a distinction between CBD/urban areas (within 30 minutes of agreed time) and rural areas, where the threshold should be two hours. Power and Water notes that while some interstate DNSPs include failure to keep appointments in their GSL schemes, the thresholds are variable, with network businesses in Victoria and Queensland opting for an appointment window approach. Ergon Energy, for example, has an appointment window of one day. There is also a practical implementation issue given that there will never be complete time synchronisation between Power Networks and customers. Under an automatic payment approach, the onus is on Power and Water to identify customers eligible to receive GSL payments.

Network map

- 2.11 The need for a network map for the purposes intended by the Commission is largely diminished if the terms 'interconnected' and 'radial' are replaced by 'CBD and urban' and 'rural long and rural short' respectively (also refer to paragraph 2.2). Adopting this terminology will also allow comparisons with interstate network service providers, who also report performance using these definitions.
- 2.12 Another argument against having a map for the purposes for which the Commission intends is that under an automatic payment approach, the onus is on Power and Water to identify customers eligible to receive GSL payments, and to subsequently investigate claims from customers regarding their eligibility. Given the awareness campaign that will accompany the introduction of a GSL scheme, it is highly unlikely that customers will not be aware of their rights and consequently not claim. Switching operations in suburbs is dynamic and would result in the network map needing to be constantly updated as customers are switched to different feeders for periods of time. The provision of a network map is more likely to confuse customers rather than inform them.

Excluded events

- *Supply interruptions due to planned outages, where at least four business days notice has been given of the planned outage*
- 2.13 Power and Water proposes a wording change to this excluded event, as follows: 'Supply interruptions due to planned outages'. Planned outages are a necessary operational requirement and not reflective of poor performance; in fact, they are necessary to maintain reliable service provision.
- *Events outside reasonable control of the service provider*
- 2.14 The Commission's proposal that a service provider must write to it to confirm that an event may be excluded on the basis of being outside the service provider's reasonable control is not consistent with the approach adopted by the Australian Energy Regulator, and appears overly bureaucratic. Furthermore, the Commission is already being informed of noteworthy events and supply interruptions through the half-yearly reports provided to it by the Power System Controller, and is therefore able to ascertain whether GSL payments should have been made in relation to any of these incidents. The proposed incident reporting guidelines also introduce an additional layer of reporting/notification to the Commission.

- 2.15 To not exclude a natural event because it doesn't affect more than five per cent of the customers in a particular region appears arbitrary. Key parts of the power system (such as Channel Island Power Station and Hudson Creek System Control Centre) are not located in populated areas and may be severely affected by a major natural event that does not directly affect the population. Population density is not a direct measure of power system location (for example, long transmission lines between major centres). Further, as noted by the Commission in its Draft Report, Ergon Energy were the only jurisdiction to use this population based exclusion methodology, however since 2006 this has been discontinued.
- 2.16 There is general acceptance that a service provider will never be able to completely prevent outages. Using a network example, undergrounding all powerlines may improve network reliability, however would be cost prohibitive and may present other problems, such as not being able to locate faults as quickly as on overhead powerlines.
- 2.17 Power and Water supports the continued use of the 2.5 Beta method to exclude the effect of severe interruptions or "major event days". This is a recognised, industry accepted statistical method for identifying the effect of statistical outliers for reporting purposes, and is less subjective than determining whether or not more than five per cent of customers in a particular region are affected by a natural event.
- *Multiple contingency events*
- 2.18 Power Networks' current system planning criteria is generally n-1, and planning, constructing and operating a network system, particularly a small system, with greater redundancy would not be commercially feasible, nor consistent with industry practice. Similarly, the cost of ensuring reserve generation capacity above Power and Water's current n-2 design standard would be prohibitive and ultimately passed through to electricity customers.
- 2.19 The most recent contingency event experienced by Power and Water occurred on 30 January 2010. This was a system black incident caused by the simultaneous trip of both Channel Island Power Station (CIPS) to Hudson Creek Control Centre 132kV lines. To mitigate such an event occurring in future, the power system would require significant investment. For example, the estimated cost of an additional transmission line from CIPS to Katherine is \$150 million. The Commission should re-consider its draft decision to not categorise multiple contingency events as excluded events.

Rolling 12 month period vs financial year payment basis

- 2.20 The Commission considers that payments under the GSL scheme should be based on a rolling 12 month period, rather than a financial year basis. The converse of the argument put forward by the Commission to justify adopting a rolling 12 month period may also apply. That is, a customer could receive very good performance over a calendar year but still receive a GSL payment for poor performance during a financial year. This is not a compelling argument for adopting a rolling 12 month period.
- 2.21 The administrative issues and costs surrounding the tracking of rolling year service performance payments would be difficult and prohibitive. The payments would be made through the Retail Management System, by customer, while the outages are currently recorded in the Facilities Information System. The two systems are not integrated and either system changes would be required, or the process would be extremely labour intensive. The issue would be tracking when a customer was last provided with a GSL rebate, and then needing to reset their 12 months when a new GSL payment is made. The Commission's proposal for a 12 month rolling average is

not practical, and certainly not achievable, if the commencement date is to be 1 July 2011.

- 2.22 If the Commission's intention is to minimise the administrative costs in implementing a GSL scheme, then the most feasible and cost effective approach would be for Power and Water to make payments to eligible customers annually, within two months of the end of each financial year. This will allow reports and data sets to be produced covering each of the performance measures (where applicable), with subsequent checking to confirm customers' eligibility. To undertake this task throughout the year under a 12 month rolling average approach would be very resource intensive.
- 2.23 A further argument for adopting a financial year basis is that the GSL scheme will only apply to small customers using less than 160 MWh per annum. This would be the first filter to determine eligibility, then duration and frequency of outages experienced by these customers over the period would be the second filter.

Payment mechanism

- 2.24 The Commission has not addressed the matter of electricity account holders who have unpaid accounts with Power and Water. It seems commercially appropriate that any GSL payments would initially go towards rectifying unpaid accounts.

GSL scheme funding

- 2.25 The Commission states that the GSL scheme shall be funded from Power and Water's general revenue (paragraph 1.8 of Draft Report). This is not Power and Water's preference. The GSL scheme should be funded through the regulatory reset process, and from Power and Water's profits until then. Paragraph 4.53 states that the Commission could consider if an allowance for GSL payments should be made when assessing Power Networks' regulated revenue requirement for the 2014-15 to 2018-19 regulatory period. The Commission should make a decision in this regard now rather than defer consideration of a matter that is integral to the design of a GSL scheme.

Annual cap

- 2.26 The Commission has not specifically addressed Power and Water's submission that a cap linked to Power Networks' regulated revenue be applied to the GSL scheme, other than to state that GSL payments generally represent a minor financial cost on a business relative to overall operating and capital costs. GSL payments are a cost, nevertheless, and applying a cap of 2% of Power Networks' regulated revenue (equating to approximately \$2 million currently) would be prudent, particularly given the automatic payment approach to be adopted, whereby "... an automatic payment should be made to all customers on that feeder, irrespective of whether they actually experienced all of the interruptions." (paragraph 1.11 of the Draft Report).

Implementation date

- 2.27 Power and Water supports the certainty that legislative provisions will provide, and looks forward to implementation plans being detailed in the Commission's Final Report. While the Draft Report links the implementation date for a GSL scheme to the scope of legislative changes required to support its introduction, Power and Water reiterates that the key to successful implementation of a GSL scheme is to have systems in place to record the various performance indicators.

- 2.28 As stated in Power and Water's response to the Issues Paper, outages are currently recorded in Power and Water's Facilities Information System (FIS). The Asset Management Capability (AMC) project, currently underway, will provide similar capability but will differentiate between planned and unplanned outages. Phase 1 of this project is expected to be completed by June 2011. For this reason, Power and Water proposes that an appropriate commencement date for a GSL scheme would be 1 July 2011.

