

NORTHERN TERRITORY TREASURY SUBMISSION TO THE UTILITIES COMMISSION ON THE ISSUES PAPER FOR THE REVIEW OF ELECTRICITY SERVICE STANDARDS FOR THE NORTHERN TERRITORY

Northern Territory Treasury thanks the Utilities Commission (Commission) for the opportunity to make a submission on the Issues Paper for the Review of Electricity Standards of Service (ESS) for the Northern Territory.

Treasury recognises that governments and regulators need to set and monitor Standards of Service to provide some certainty of the service levels customers can expect of participants operating in a non-competitive market. Furthermore, it is acknowledged that regulation is required to ensure that acceptable service standards are maintained.

Treasury supports the review of ESS in the Territory and the need to ensure that the framework adopted can anticipate potential failures in the system allowing for preventative maintenance to be undertaken.

The current ESS Code does not incorporate any incentive or penalty mechanisms and it is recognised that without these mechanisms monopolies have little or no incentive to improve. Consequently disclosure requirements, legislated minimum service level standards, Guaranteed Service Levels, financial incentive schemes and contractual service standards should form the framework adopted to reflect a greater degree of accountability and transparency than is currently evident.

To date there appears to have been no economic assessment of the value customers place on reliability of their electricity supply versus their willingness to pay for that level of reliability, which is reflective of the lack of competition in the market. It is clear that there is a need to understand customer preferences and their regulatory bargain position when setting service standards and Treasury believes that this is best achieved through customer consultation.

In responding to the questions raised by the Commission these have been addressed below.

Question 1

Do you agree that reliability and customer service performance should be determined based on a 'best endeavours' approach? If not, what other alternative approaches are appropriate?

Treasury recognises the difficulty in adopting an approach which requires the service provider to always meet the required standard of service and the financial impact that would consequently be borne by customers. While Treasury supports the best endeavours approach as one alternative, it could be considered subjective. An alternative approach could be based on a percentage of success of meeting the target over a rolling 12 month period.

Question 2

Do you think that market conditions for electricity supply in the Territory warrant the definition of standards of service for electricity generation, electricity networks and electricity retail participants?

Monopolies have no or very little incentive to improve their standards of service and it is for this reason that regulation is required. Governments or regulators in other jurisdictions set and monitor minimum or average standards of service to provide some certainty about the service performance customers can expect of monopoly like participants. Treasury supports the view that regulation is needed to ensure that acceptable standards of service are maintained.

Question 3

Do you consider reliability standards such as SAIDI, SAIFI and CAIDI effective measures of generation reliability in the Territory?

Do you consider the equivalent forced outage factor (EFOF) and the equivalent availability factor (EAF) indicators would be more useful indicators of generation reliability?

In the absence of independent bodies (such as AEMC and AEMO in the NEM) to ensure there is adequate supply to meet demand, an alternative reliability standard is required. While the use of SAIDI and SAIFI are considered useful in measuring overall customer service performance these measures do not differentiate between the planned outages (required to undertake capex and maintenance on units) and the forced/unplanned outages and therefore could provide a distorted position. It follows that this view could also be applied to some extent to reliability standards for distribution network service providers (DNSP).

It is Treasury's view that the EAF and EFOF indicators which strip out the planned outages would appear to provide a more useful indicator of the condition of generation assets and informing of future reliability. These indicators which are used by Tasmania also provide a comparison of the performance of the Territory's generation assets.

Question 4

Do you consider that there should be reliability indicators for the transmission elements of the Territory electricity system?

Given that transmission lines currently form part of PowerWater Corporation (PWC) Networks, Treasury does not propose separate reliability and indicators be established at this stage. In the event that transmission is split out from networks in the future, it is at that point that separate reliability indicators should be considered.

Question 5

Do you consider the following indicators of DNSP reliability should be reported in the Territory:

SAIDI;

SAIFI; and

feeder performance

Do you consider there are other indicators of DNSP reliability that should be reported in the Territory?

Treasury's view is consistent with the Commission, that SAIDI, SAIFI and feeder performance indicators should continued to be applied to measure DNSP reliability. Nonetheless it would be interesting to know to what extent these indicators have to date resulted in preventative maintenance being undertaken.

Question 6

Do you consider there is merit in requiring generators or the DNSP in the Territory to report against specific quality of supply indicators?

Are you aware of any difficulties associated with collecting and reporting specific quality of supply indicators?

The current requirements of the DNSP to report customer complaints about quality of supply is considered a very limited indicator of service performance, it could be assumed that many voltage events are not captured as many customers do not make a formal complaint. To adopt the Tasmanian approach which is somewhat more robust is still considered a limited indicator.

In the event that smart meters will be able to measure quality of supply, Treasury's view is consistent with the Commission that the current reporting of customer complaints as an indicator of customer service is considered adequate, pending any introduction of smart meters in the future.

Question 7

Do you consider there is merit in requiring PWC Networks and retailers operating in the Territory to report against nationally consistent customer service indicators?

Do you consider there is merit in establishing customer service indicators relating to customer hardship?

Are you aware of any difficulties associated with collecting and reporting nationally consistent customer service indicators?

With a view to bringing the Territory market in line with the NEM Treasury agrees with the Commission and considers that both PWC Networks and retailers should be required to report separately against nationally consistent customer service indicators, including the establishment of customer hardship indicators to monitor retailers performance. It is anticipated that the National Energy Customer Framework will be adopted in the Territory to the extent possible when it is finalised later in the year, which should ensure national consistency.

Question 8

Should the Commission determine generation, networks and retail standards of service for the Territory

The Commission is considered the appropriate independent body for determining standards of service targets for generation, networks and retail in the Territory. However it is proposed that where possible the Commission adopt the national standards particularly with respect to DNSP and retailers. Treasury concurs with the Commission's view that the proposed national review into distribution reliability would assist in the development of effective standards of service in the Territory.

It is Treasury's view that the establishment of a customer service incentive scheme which is aligned to those established in other jurisdictions will assist in the development of consistent retail standards of service.

In the absence of a transparent and independent process for determining generation service targets and that there is greater propensity of generation outages affecting customers in the Territory vis-a-vis the NEM, Treasury agrees that there needs to be a closer examination of what represents a reasonable generation reliability standard than N-2.

Question 9

Should the Commission define a relationship between minimum standards and average standards? For example, should minimum standards for individual feeder performance be linked to average network reliability performance?

Treasury has no comment on this

Questions 10 to 12

Do you consider that using a multiple year rolling average of recent service performance is the most effective way of setting average service targets?

Do you consider that using that service targets and service performance in the Territory should take into account the service performance of service providers elsewhere in Australia?

**Do you consider that service targets and service performance in the Territory should be set to encourage improvement in service performance over time?
Do you think the Queensland approach could be applied in the Territory context?**

There is merit in drawing from all three alternative approaches identified by the Commission in setting standards of service targets.

An application of a multiple year rolling average (initially based on the last three to five years) which is required to be increased over the regulatory period would establish standard of service targets that supports an overall improvement in performance. It is acknowledged that service targets that require such improvements in performance may need to be supported by financial incentives (such as increased capital and maintenance through the network regulation process) be effective.

Where possible service targets and performance should be benchmarked against service providers in other jurisdictions, acknowledging that there are inconsistencies in the standards of service adopted and differences in operating practices, geographic and other conditions.

Questions 13 & 14

Do you think that there is merit in assessing Territory customer preferences and willingness to pay for a certain level of electricity service performance to inform the development of standards of service?

Should there be an explicit obligation for electricity service providers in the Territory to consult with customers on their preferences for standards of reliability and quality of supply, given the cost of supply and price implications?

Treasury appreciates there is a relationship between the level of reliability and quality of supply which is determined by system planning and design which in turn influences capex and maintenance decisions and ultimately the price of electricity for customers.

Defining standards of service requires a trade-off between service performance and the cost borne by customers. It evident there is a need to undertake an economic assessment of the value customers place on reliability versus their willingness to pay.

This assessment is obviously more difficult in a non competitive market such as the Territory however, this could be achieved through customer consultation. An initial starting point could be the development of a cost reflective pricing framework which would signal to the customers the current level of subsidies being applied and gauge their willingness to pay for an improved standard of service.

Question 15

Do you consider the 2.5 beta method an appropriate method for identifying the underlying reliability performance of a service provider for the purposes of reporting service performance and setting service targets, or should the Commission consider specifying excluded events?

Treasury has no comment on this

Question 16

Do you consider there is merit in requiring separate reporting of unplanned and planned outages for electricity networks and generation in the Territory?

Yes, refer to Question 3.

Question 17

Do you consider service performance data should be reported using nationally consistent categories?

Treasury is of the view that where possible the Territory should be consistent with the national framework and supports the reporting categories being nationally consistent.

Question 18

Do you know of any data quality problem that may mean currently available or future performance data is not suitable for setting service targets, or reporting service performance?

Treasury has no comment on this.

Question 19

Should standards of service arrangements apply to all service providers operating in the Territory electricity market?

Treasury's view is that the development of the standards of service performance framework should be flexible enough to ensure its consistent application to all service providers operating in the Territory electricity market now and in the future.

Question 20

Should standards of service arrangements only apply in the regulated market systems?

While the difficulties in applying uniform standards of service across non regulated markets are recognised Treasury would encourage consistency be applied where possible. Standards of service arrangements in no regulated markets could be facilitated through individual contractual arrangements.

Question 21

Do you have views on the capability of performance reporting systems, and the willingness of customers to accept the costs of improving reporting systems?

Treasury has no comment on this