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Review of Energy Guaranteed Customer Service Standards and Operating Statistics
Independent Pricing and Regulatory Tribunal
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Country Energy Submission: Review of Energy Guaranteed Customer Service Standards and Operating Statistics

Introduction

The current arrangement for Guaranteed Customer Service Standards (GCSS) and operating statistics has remained unchanged for some time. This review is thus welcomed by Country Energy as an opportunity to ensure that the regulatory measures in place are those which hold the most relevance to customers. The existing arrangements have proven relatively effective in delivering appropriate outcomes for these objectives and as such the case for major changes should be very clear. Country Energy offers the following comments and is happy to participate in further consultation.

At present, all three aspects of service quality are monitored in some form, either by the Tribunal or by the Ministry for Energy and Utilities (Ministry). The monitoring of these aspects, namely supply reliability, supply quality and customer service, is important as they represent measures which potentially have the most customer impact. Country Energy recognises this importance and supports the ongoing role of the regulator(s) in this capacity.

The Issues Paper suggests greater use of GCSS in all these aspects could improve the regulatory regime. This submission will focus primarily on the potential changes to the regulation of reliability and quality of supply aspects for two reasons. Firstly, Country Energy considers the current regulatory arrangement in relation to customer service to be generally appropriate and effective, and second, the potential changes to the use of these instruments in the regulation of quality and reliability of supply represents the more substantial issue in terms of implications for Country Energy's operations.

What should be Measured?

The three aspects of service quality outlined in the IPART Issues Paper all contribute substantially to the value customers derive from the supply of electricity. Country Energy understands the need for ongoing monitoring of each of these and willingly provides data for this purpose. Ensuring that such measures appropriately reflect the relative value customers place on these aspects of service quality is important. This concept is crucial to the delivery of efficient regulatory outcomes. If an element of service quality valued highly by customers is somehow overlooked by the measures in place, then there is a risk that customer expectations will go unmet. Conversely, if regulatory measures enforced have limited bearing on actual levels of customer satisfaction, then the outcome will be excessive and unnecessary compliance costs.

Agreeing upon what is an appropriate outcome in terms of service quality is not a straightforward process. In its 2002 report to IPART, the consultancy NERA included an examination of the role of minimum standards in the overall regulatory framework.¹ In discussing ways of determining which aspects of service quality could be influenced using minimum standards, it identified three criteria as being essential to a successful regime. These are:

- Importance to the customer;
- Controllable by the regulated firm; and
- Measurable by the regulator.

A detailed assessment of each aspect of service quality in relation to the above is not appropriate here, but a brief overview of how well or poorly aspects of supply reliability and quality meet this criteria is useful.

Importance to the Customer

Customers have a history of expressing a desire for improvements in supply reliability and, more recently, quality. One common way of assessing the value customers place upon improvements in service quality is the use of 'willingness to pay' (WTP) analysis. This allows general statements to be made as to the desirability to consumers of improvements in service levels. Studies undertaken to date indicate that consumers place a significant degree of worth on improvements in the reliability of supply.²

However, Country Energy is wary of drawing any substantive conclusions from WTP surveys and related methodologies for determining customer preferences. We believe

¹ *Review of Energy Licensing Regimes in New South Wales: Minimum Service Standards*, NERA, March 2002.

² Preliminary analysis of a joint pilot study conducted by the NSW electricity distributors in January 2003 shows that rural customers currently express stronger desire for improvements in reliability of supply than do urban customers.

that, as with most WTP studies concerning the provision of essential services, respondents have a tendency to overstate their true willingness to pay when they believe that the financial burden of their stated preferences will ultimately fall elsewhere. None the less, as a general statement, it is clear that customers appreciate higher levels of supply reliability and quality over lower levels. Thus, monitoring performance of these aspects of service quality makes sense.

Controllable by the Regulated Firm

It is Country Energy's belief that both reliability and quality of supply are affected by many issues outside the control of the company. With reliability, a substantial proportion of supply interruptions are the result of factors not directly attributed to equipment/maintenance factors. This poses serious issues for the introduction of a minimum standard relating to the frequency and/or duration of interruptions. Allowing for the exclusion of certain events would be essential to the operation of such a regime, but this poses a potential administrative burden to both regulated firms and the regulator.

The factors affecting quality of supply are many. Variations can exist between sites on the same feeder, as well as at different times of the day. Measures to improve this variability can be taken but at considerable cost. It is Country Energy's opinion that the most efficient means of limiting the impact of variations in supply quality is a continuation of existing arrangements. This approach allows for the maintaining of overall network performance while providing the flexibility for improvements in targeted applications.

Measurable by the Regulator

The extent to which compliance with any GCSS can be verified depends upon the network equipment installed to monitor and log the relevant performance attributes. While the argument could be made that employing minimum standards shifts the monitoring burden onto firms and customers, the Tribunal would still play an important and considerable role in dispute resolution and validation of claims. Again, this level of oversight could only be achieved at considerable cost. This is discussed further below.

Appropriate Standard Levels

While it is logical to assume that the pursuit of higher standards of both supply quality and reliability would confer real benefits upon consumers, quantifying these benefits in order to establish appropriate standards of performance is difficult. Given this, deciding upon a GCSS regime in the absence of clearly quantifiable data of this type would be premature. WTP analysis can be of use in ranking what aspects of service quality customers value most, but offers limited insight into the true value attached to these preferences. More specifically, the worth attached to incremental improvements in service quality is very difficult to gauge from this type of study, and as such, deriving standards solely from WTP based surveys would likely produce substantial inefficiencies in network expenditures and

asset utilisation. The reasonable expectations of customers in regions receiving lower levels of service should certainly be considered, but not in isolation.

Whether GCSS for supply reliability and quality are introduced or not, the regulatory regime should always make reasonable allowances for the operating environment of the network. This ensures that performance standards are appropriately adjusted and that, in the instance of network reliability and quality, comparisons are only drawn between similar feeders. Country Energy supports the introduction of a standardised method for categorisation of different network sections and is currently working on implementation of the framework outlined in Steering Committee on National Regulatory Reporting Requirements (SNCRRR).³

Data Quality

The current level of data available with regard to reliability and quality of supply poses a significant barrier to the effective use of minimum standards incentive regulation.⁴ In Country Energy's opinion, this is a crucial issue and should be addressed before significant change to the regulation of service standards is considered. Without this it would be doubtful that appropriate incentives would result from any minimum standards regime. Improvements of this kind can only be achieved with substantial capital outlays. Whether the benefits derived from any such measures would justify their costs would need to be analysed before any final decisions are made.

It should also be noted that this issue would be particularly restrictive if the implementation of GCSS were to include the use of financial payments for under performance. Such an arrangement would necessitate substantial investment in internal monitoring and reporting measures, in addition to the upgrades required to network reporting capabilities.

Other Jurisdictions

As an alternative to an outright GCSS regulatory regime, the report by consultancy NERA into minimum service standards noted that South Australia operates under a regime which allows increases in overall network prices based on improvements in the performance of a previously identified group of underperforming feeders.⁵ In Country Energy's view, this provides reasonable incentives to raise service levels received by customers in lower performing regions. This arrangement could be loosely classed as a minimum standards regime but minimises the administrative burden relative to more orthodox GCSS approaches and could be added to the existing collection of operating statistics at reasonable cost. In the view of NERA, this type of regulation 'means that the ...electricity distribution business has an incentive to improve both average and minimum standards.'

³ *National Regulatory Reporting for Electricity Distribution and Retail Businesses*, Utility Regulators Forum, March 2002.

⁴ This view was outlined at length in the report to IPART, *Reliability Measurement - Review of NSW Distribution Network Service Provider's Measurement and Reporting of Network Reliability*, PB Associates, October 2002.

⁵ *Review of Energy Licensing Regimes in New South Wales: Minimum Service Standards*, NERA, March 2002. p24

An important aspect of this arrangement in South Australia is that it incorporates strong positive incentives for the improvement of the worst performing feeders, rather than merely seeking to discourage further decline in these feeders with the use of penalty payments. Country Energy is of the view that this creates appropriate motivation for improvements in service levels to these customers, whereas penalty payments can come to be considered as another cost of doing business rather than spurring improved performance given the substantial levels of capital investment required to achieve any set standards.

More generally, the measures adopted in other jurisdictions under the heading of incentive schemes have limited applicability to the New South Wales industry at this time. As discussed, this is mainly due to the limitations in data reporting capabilities across the distribution sector, as outlined by PB Associates. Until interim measures are catered for in network revenue, investing in the systems to provide sufficiently detailed information on network performance that GCSS require for both reliability and quality of supply, are not allowed for in the current revenue path.

Compensation Payments

Country Energy considers the current limited use of compensation payments to be generally appropriate. The levels at which these payments have been set are also appropriate in bringing about meaningful improvements in service outcomes and we see no need for further adjustment. This endorsement includes the current method for allocating compensation and we would not consider changes which see compensation paid automatically as an improvement over the existing regime. However, some reservations exist over the use of payment mechanisms as they currently apply to the area of keeping appointments.

Extending the use of compensation payments to other aspects of quality of service, namely reliability and quality of supply, is not supported by Country Energy. As discussed above, the addition of compensation payments, and more generally, the use of GCSS in regulating these aspects of service quality would add significantly to network expenditure. Monitoring costs associated with verifying payments would be high, yet improvements in service levels would not be guaranteed. As such, applying compensation payments to either reliability or quality of supply could potentially be both costly and ineffective.

Future Arrangements

Country Energy would support measures taken by the regulator to improve the ability of network reporting and has outlined this position in our electricity network determination submission. Essentially, the regulatory regime should allow for the full cost recovery of network investment for this purpose and improvements in this area can only be expected under such an arrangement. We are currently engaged in efforts to improve our internal reporting capability in both reliability and quality of supply monitoring and would expand these efforts given the appropriate regulatory support. This arrangement would be

consistent with a move towards a regime focused on delivering better outcomes to those customers currently connected to under performing feeders whilst being reasonably easy to incorporate into the existing reporting format. Such steps are also an essential interim measure should the Tribunal decide upon a move towards GCSS for supply reliability and quality at a later date.

Summary of Country Energy's Position

Given that the objectives of the various stakeholders have been largely met within the current regulatory regime, Country Energy is of the view that substantial rearrangement of the split between operating statistics and GCSS is not needed. We generally support the use of minimum standards and operating statistics as they are currently applied. In order to implement an effective minimum standards incentive regime to the regulation of quality and reliability of supply it is necessary to implement significant capital expenditure programs. Country Energy would only be willing to move to this type of program with full cost recovery allowed. We believe a suitable alternative to an outright minimum standard would be an interim arrangement where improvements in a predetermined group of feeders is rewarded through proportional increases in allowable revenue. This would provide the strongest incentives for raising minimum service levels whilst not introducing excessive costs into the monitoring process. Whether the introduction of Guaranteed Customer Service Standards for supply reliability and quality at a later date would improve on these incentives is not clear and would entail significant costs both in implementation and operation.

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