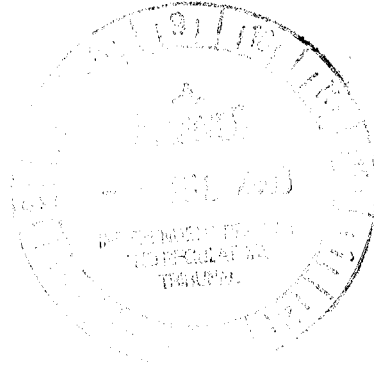


EMRF

→ EMMA



2 July 2003

Dr Thomas G Parry
Chairman
Independent Pricing and Regulatory Tribunal
Of New South Wales
PO Box Q290
QVB Post Office
SYDNEY NSW 1230

Dear Dr Parry

Providing Incentives For Service Quality

I attach the views of the Energy Markets Reform Forum (EMRF) on Providing Incentives for Service Quality.

The EMRF considers it commercially unacceptable that certain utilities have said that they are unable to improve data availability until around 2005/06, and by implication, that a scheme for improving service quality be deferred until after that date. It is emphasised that the Tribunal had signalled its view (some years ago), which we strongly support, that it would be desirable to explicitly incorporate incentives for efficient levels of service quality into the regulation of network prices for the 2004 regulatory period.

The EMRF strongly considers that MAIFI data must be collected and added to a service quality incentive scheme in the future. Momentary interruptions are a current cause of major disruption to EMRF members companies, as they adversely add to operational costs. The EMRF is currently compiling data from its members and will be submitting the data in a forthcoming submission on power reliability.

Yours sincerely

Mark Gell
Chairman

Providing Incentives For Service Quality: EMRF Views

- ↪ Disappointed that the DNSP's are unable to improve data availability and robustness and that reliable data may not be available for some utilities until around 2005/06.
- ↪ A 'paper trial' is not an adequate response to the Tribunal's view (which we strongly support) that it would be desirable to explicitly incorporate incentives for efficient levels of service quality into the regulation of network prices for the 2004 regulatory period. It is even less satisfactory with no monetary incentives attached.
- ↪ Concerned that unless there is a link between price and service quality, the DNSP's would reduce costs at the expense of service quality because of the financial incentives to minimize costs. It is also a ploy to 'game' the regulator to obtain increased regulated prices and revenues. There is substantial empirical evidence of 'gaming' at the 1999/2000 Review.
- ↪ As a poor second - best option, EMRF reluctantly agrees to a trial of an S factor during the next regulatory period with "substantial" but not "full" monetary incentives, using the data that is already available, and adapting to other data as they become available. This introduces incentives for improvement in service quality at a reasonably early time. This is preferable to option 2 ("reduced" monetary incentives).
- ↪ MAIFI data must be collected and added to a service quality incentive scheme in the future. Momentary interruptions are the most disruptive to industrial plants and have caused significant concerns in recent years, adding substantially to unnecessary costs. (see EMRF's forthcoming submission on power reliability).
- ↪ So far as SAIDI, SAIFI, and CAIDI measurements are concerned, the EMRF supports consistency with those used, and the approach already adopted, by the ESC in Victoria.
- ↪ The EMRF notes the substantial investment capex sought by the DNSP's in order to improve service quality and reliability. Whilst these claims should be benchmarked and rigorously assessed by the Tribunal, any failure to make the service quality investments must be immediately clawed back by the Tribunal at the mid-point of the next regulatory period and again at the next regulatory period reset. In addition, the EMRF requires the Tribunal to undertake an assessment of the extent of regulatory 'gaming' in the current regulatory period, and to apply that analysis when considering all capex claims in the next regulatory period to ensure, inter alia, that they are prudent and are linked to improvements in service quality.
- ↪ Penalties for under-performance are critical and the only protection available to consumers to ensure that service quality investments and improvements are made. These should be complemented by transparent and rigorous collection and publication of performance data.

- ↪ *The EMRF agrees in principle to rewards for improvements in service quality performance, but is concerned that the Tribunal does not set minimum standards that are too low, or award excessive capex. The rewards should mirror the penalties for under-performance, and again as stated previously, provided minimum standards are set at appropriate levels.*

- ↪ *Price adjustments (rewards and penalties) should be made on an annual basis to encouraged strengthen performance.*