

Incentive Mechanisms for Service Quality

Background

IPART has requested interested parties to comment on a range of issues regarding a separate service incentive mechanism, commonly referred to as an S factor.

The DNSP's, other than Country Energy, are on record as supporting the principle of linking price to service quality as part of the network determination, but felt that it was not appropriate to introduce an S factor as the 2004 review. These DNSP's have suggested the possibility of introducing a 'paper trial' of an S factor during the next regulatory period, with no monetary incentives attached.

This paper is in response to the Tribunal's request for views from all stakeholders regarding this proposal.

Alternatives for consideration

Before considering any alternative service incentive mechanisms for the 2004 Determination, EnergyAustralia believes that it necessary to review what service incentive mechanisms currently exist and how effective they are. It is argued that there are currently three main mechanisms for providing an incentive to maintain or improve service quality.

General Form of Regulation

Within the existing form of regulation there currently exists a mechanism for providing incentives for maintaining service standards as well as efficiency. As part of the current pricing submission EnergyAustralia went to considerable effort to design an integrated investment strategy around delivering clearly defined customer, network performance and duty of care outcomes. EnergyAustralia is committed to the delivery of these outcomes and their incorporation within the total cost review process. The capital and operating requirements contained within our submission represent a detailed and genuine assessment of the resources required to deliver the stated outcomes.

Obviously circumstances and priorities can and do change. EnergyAustralia, however, believes that given the scale of resources and importance of our services, the community and the regulator is entitled to a clear and transparent explanation of where those resources have been allocated and the degree to which those investments contributed to achieving the targeted outcomes.

It is recognised that this incentive mechanism only operates at the time of the determination, however, the prudency and total cost reviews to take place at the next regulatory reset provide a powerful incentive to demonstrate efficient resource allocation on a continuous basis. EnergyAustralia recognises that this is an important requirement and, as a consequence, has undertaken a widespread review of its investment governance arrangements. As a result of this review, EnergyAustralia is in the process of upgrading key project reporting systems and processes to ensure that the prudency and efficiency of projects can be readily established at any time.

EnergyAustralia wishes to advise IPART that it considers that the efficiency and service incentives contained within the general form of regulation are taken seriously and are considered to be effective mechanisms particularly within a jurisdiction where distributors remain government owned.

Legislative/Licence Requirements (including Guaranteed Service Levels)

Legislative and licence requirements currently provide for the technical operating and reporting requirements of distribution network businesses. To date, these reporting arrangements have been heavily focused on technical measures, largely for compliance purposes. These requirements comprise 319 DNSP related folios which can be categorised as follows;

- 27 Type 1 Folios – Immediate Reporting (ie: 5 day notification from CEO)
- 38 Type 2 Folios – Reported Quarterly (CEO)
- 245 Type 3 Folios – Reporting Annual (CEO & Board).

These licence reporting requirements cover issues relating to connection arrangements, standard form contracts, negotiated customer contracts, metering arrangements and Retailer of last resort. Additional reporting requirements relating to ring-fencing issues commence on 1 July 2003. Further reporting requirements relating to access, communication and functional separation requirements commence in 2004.

The extent and number of these requirements involve a high level of intrusiveness and impose an onerous and costly burden on DNSP's. The MEU has proposed to change the way in which it obtains network performance information to provide customers with a better understanding of the characteristics of networks and what service levels they currently and can expect to receive.

The current MEU network performance reporting arrangements are not effective as service incentive mechanisms, but it is argued that the publication of accessible information relating to the various reliability measures combined with enhanced comparative performance reporting has the potential to provide an effective service incentive mechanism. In this connection, EnergyAustralia is currently reviewing the documentation of its service standards, with a view to republishing them in the third quarter of 2003.

It should be noted that performance comparisons need to be made on a comparable basis, however, provided customers are provided with information about the performance characteristics of different network types (CBD, Urban and Rural) and alternative performance measures, customers will be able to make well informed comparisons of DNSP's.

Customer Contracts

Another effective incentive mechanism is a customer contract. To date, the only customer contract that exists between DNSP's and end use customers has been the deemed customer contract (the Standard Form Customer Contract or SFCCC) which is a licence condition imposed by the Minister. Under this condition, DNSP's are required to set out any relevant guaranteed customer service standards (GCSS).

Currently network reliability is not included in the GCSS. In an attempt to provide customers with a clear indication of the performance customers can expect from the Network, EnergyAustralia publishes a document outlining the network performance standards (Network Service Standards – ES2) that it aspires to. It should be noted that these standards reflect a standard that all customers can expect to receive, as distinct from average service standards.

EnergyAustralia is currently investigating the feasibility of including a reference to the GCSS within the customer contract. The GCSS would be provided in a separate document that detailed all the supply quality issues. It is envisaged that this could be an effective mechanism for ensuring that service levels are maintained above defined minimum standards and, if not, customers would be compensated.

Specific service incentive mechanisms

It is considered that the introduction of a specific service incentive mechanism should be seen in the context of these existing incentive mechanisms and only implemented where these mechanisms are found inadequate. It is readily accepted that existing mechanisms do not have the direct impact of a specific mechanism, but the role and impact of the existing mechanisms needs to be clearly identified and recognised before an additional mechanism is introduced.

In determining appropriate incentive mechanisms, detailed consideration needs to be given to the behaviour it is intended to elicit from regulated agencies. It should be noted that there are factors impacting upon reliability measures which are beyond the control of the DNSP and it is argued that these factors need to be eliminated or averaged out. Further, the aspects of performance which are under the control of each DNSP may be addressed through an alternate means and the incentive needs to be more than sufficient to fund the activity.

In reference to IPART's alternative proposals for specific mechanisms the following comments are provided;

i) S factor with full monetary incentives

As indicated in our pricing submission, the introduction of an S factor with full monetary incentives is not supported at this time. The inadequacy of data collection and reporting systems is likely to result in perverse incentives which may result in unsatisfactory service outcomes. In addition, given the backlog of replacement and planned maintenance activity, which was outlined in our recent submission, there is likely to be a higher level of uncertainty regarding potential service levels, particularly during the early years of the next regulatory period.

ii) Reduced monetary incentives (with possibility of increasing them as data improves

In the absence of better data and reporting systems, EnergyAustralia does not believe it appropriate to introduce an additional incentive mechanism with a monetary incentives over the next regulatory period. EnergyAustralia recognises that improved network performance information is essential to the better targeting of network investments in the future and is committed to the introduction of enhanced network performance reporting systems. Some of this work has already commenced and additional projects have been included in EnergyAustralia's proposed investment program and will be completed over the next regulatory period.

iii) Paper trial with no monetary incentives

This alternative was supported by EnergyAustralia in its recent pricing submission and remains the preferred alternative. Whilst no monetary incentives are attached to the S factor initially, EnergyAustralia believes that such a mechanism has the potential to provide strong incentives for improved performance when combined with existing mechanisms. It is argued that improved performance measurement could greatly enhance performance comparisons, the existing form of regulation as well as other regulatory instruments, such as customer contracts and operating licences. These planned improvements should ensure that an adequate set of data is available to implement an S factor, with financial incentives, at the next determination.

A significant issue in need of resolution, which could readily be done during a paper trial, is to clearly define exclusion arrangements and their impact on the incentive scheme. This trial should ensure that any unintended effects of the scheme could be identified and eliminated.

iv) Postponing introduction of S factor until robust data available or the next regulatory review.

This alternative is not supported since it does not provide the basis for the collection and development of improved network performance data collection and reporting within the next regulatory period.

Choices of Measures

The Tribunal seeks comment on the choice of reliability measures for inclusion in any incentive scheme, and on whether MAIFI data should be collected, with the option to add it to any service quality incentive scheme in the future.

Views are also invited on whether it would be desirable to collect data on other aspects of service quality (and if so, which aspects) so that these elements could potentially be included in future regulatory reviews.

Types of Service Quality

Established service reliability measures exist and have been reported for some time. To date, these measures have been reported on a regional basis. More recently, the value of reporting these measures on the basis of network characteristics (ie: CBD, Urban and Rural) has been recognised. EnergyAustralia has accepted the reporting of network performance on this basis, but also believes that the traditional reporting approach should be retained, as it is an indicator of historical performance and to aid in communicating with customers.

The accuracy of these measures is greatly influenced by the method of identifying the number of customers affected by an interruption. As a result, this area of network reporting has been focused on by EnergyAustralia and promising results have been achieved already.

In relation to specific measures the following comments are provided;

i) SAIDI

This measure is an overall measure of system reliability and has been used widely. However, the measure can have a high degree of variability as a result of major external factors, such as storms, bushfires or events that could not reasonably be mitigated against. The treatment of these factors as exclusions is discussed in more detail below.

It should also be noted that this measure can be greatly influenced, particularly in rural networks, by the location and level of maintenance resources. It is argued that this would need to be taken into account in the setting of targets for this measure, otherwise it may lead to the setting of unrealistic targets and inappropriate incentives. For this reason, an indicator based upon the current average performance would be recommended as a starting point.

ii) SAIFI

Once again, this measure is commonly used as an overall indicator of network performance, but, it is strongly influenced by network configuration, as well as the effectiveness of maintenance. It also can be impacted by external factors, discussed in more detail below. EnergyAustralia's service improvement proposals, contained in its current pricing submission, are based around achieving a significant reduction in those customers facing a frequency of interruptions in excess of the aspirational targets contained within EnergyAustralia's published Service Standards document (ES2).

iii) CAIDI

This measure, which can be estimated for any group of customers, is not as commonly referred to as SAIDI, which is a system-wide measure. It should be noted that this measure, particularly for smaller customer segments, is even more dependent upon an accurate method of identifying the number of customers affected by an interruption.

iv) MAIFI

Momentary interruptions are recognised as potentially an area of increasing concern to customers. It should be noted, however, that this data is currently not collected and considerable resources would be required to collect MAIFI data, particularly in rural regions, since re-closers currently do not have communications equipment and this would need to be collected manually.

It is possible that the collection and recording of this data may be possible as part of the planned replacement and upgrade of SCADA systems during the next regulatory period, but the feasibility of achieving this has not yet been assessed.

It is suggested that this issue that should be reviewed over the next regulatory period and research should be undertaken to assess the value customers attach to avoiding momentary interruptions.

Quality of Supply

With the progressive adoption of International Voltage, Electromagnetic Compatibility and Product Standards, Quality of electricity Supply is now an International Issue that requires an holistic approach if customers' "problems" are going to be solved. As a result, it is no longer merely a DNSP, or a State issue. It is an extremely complex issue involving the interaction between Standards, Manufacturers, Transmission and Distribution networks, customers (their equipment, load characteristics, mode of operation and electrical installation), regulators and shareholders. It is accepted that this issue has the potential to be an area of increasing concern for customers.

EnergyAustralia currently monitors quality of supply at specific locations in response to customer problems. A trial monitoring project has also been embarked upon at strategic locations within the network with a view to gaining experience in the technology, data management and reporting issues, and to enable sensible input to be provided to Regulatory forums with respect to the development of future reporting requirements. This project will shortly be extended to cover additional locations.

Complimentary to this is EnergyAustralia's role as Convenor of the ESAA National Power Quality Working Group, and our participation in the joint DNSP, ESAA, University of Wollongong, Australian Power Quality Service Centre research project.

The ESAA National Power Quality Working Group is an Australia wide industry group, working cooperatively in the areas of Power Quality (and transient related Reliability) issues that are affecting customers:

- Regulatory liaison & influence.
- Surveys (University of Wollongong / Australian Power Quality Service Centre).
- Standards (development, alignment of equipment & system Standards, SAI Technical Committees etc).
- Production of Guidelines (eg, implementation of Aust & Int Standards, A/C installation).
- Benchmarking activities (just what should be regarded as "satisfactory").
- Research and Development (monitoring, reporting, data issues, "dip" index).
- Industry submissions.

It also aims to promote National consistency via the development and adoption of National / International Standards, and the alignment of Network Standards, policies, S & I rules etc. – and to improve liaison with Manufacturers & Electrical Contractors via AEEMA, NECE etc.

DNSP's recognise that there are things that they can do to improve the quality of supply but is also significantly impacted by the choices customers make in terms of the type of equipment they connect to the network, the characteristics of their loads, and how they are used. The whole issue is an interaction between the degree of any voltage waveform distortion and the degree of equipment compatibility / immunity.

It is suggested that this further research be reviewed during the next regulatory period.

Customer Service

It is important that any measure of customer service is meaningful to and valued by customers. These measures should focus on customer service outcomes (eg: customer satisfaction levels) not processes (eg: number of phone calls answered within some defined time). EnergyAustralia believes that the measurement of satisfaction is not as simple as the measurement of process type measures.

EnergyAustralia has been collecting customer satisfaction data for some time and believes that this aspect of service can be satisfactorily measured and could be successfully used as a component within a service incentive mechanism.

Customer Preferences & Priorities

The Tribunal seeks views on the ways in which customer preferences and priorities can best be reflected in any service quality incentive mechanism introduced.

EnergyAustralia agrees that customer preferences should be a key determinant of the choice of measures for inclusion in any service quality incentive schemes. The findings of the studies in other jurisdictions reported by IPART in its issues paper are reasonably consistent with the preliminary findings of the research that the DNSP's have undertaken to date. However, EnergyAustralia strongly suggests that it is important that the Tribunal make it clear the type of the customer research it is considers useful and how this research would be used in determining the desired service outcomes.

Under the current regulatory structure, the Tribunal's role is both as an independent reviewer of agencies pricing proposals and market surrogate. Under these arrangements it is open to the Tribunal to form their own views of customer priorities and requirements on the basis of whatever data and information they may have access to. This arrangement fails to provide regulated agencies, or other stakeholders, with a clear understanding of the role and importance the Tribunal would attach to soundly based customer research.

EnergyAustralia would welcome the opportunity of working with the Tribunal to develop a framework which would define how customer research could be incorporated into the regulatory framework, including the development of service incentive mechanisms. Until this framework is developed and agreed to, EnergyAustralia believes that it would be difficult to justify the significant investment required to undertake research into customer's preferences and valuations of different standards of electricity distribution services.

Data Quality & Availability

The Tribunal seeks comment on the most appropriate options for creating incentives for the delivery of data quality improvements.

EnergyAustralia accepts that limited progress has been made in improving data availability and robustness since 1999. It also recognises the contribution made by regulators, and their working groups, in progressing and standardising the reporting arrangements. The Tribunal's issues paper goes on to indicate that where progress has been made that this is in response to regulatory interventions.

EnergyAustralia strongly rejects any suggestion that DNSP's have not been willing to progress improved performance reporting. The reason for the lack of progress in this area has been the result of the considerable effort and resources invested, by both DNSP's and Retailers, in developing systems required for the implementation of full retail contestability. In addition, the resources available to DNSP's were constrained by the form of regulation that was applied at the last determination.

EnergyAustralia does not believe that further regulatory intervention is required to ensure the improvement in data quality and robustness over the course of the next regulatory period. EnergyAustralia fully recognises the need for accurate and meaningful network performance data to effectively target future investment and has already commenced a number of initiatives in this area. Additional initiatives have been proposed in our recent pricing submission and existing regulatory arrangements already provide adequate incentives to ensure that the planned improvements are achieved.

EnergyAustralia agrees that it should publish details of planned improvements to network reporting systems and processes. Key planned improvements include;

- ◆ Accurate classification of feeder section by category (urban, rural & CBD)
- ◆ Improved accuracy in the identification of the number of customers affected by an interruption, by feeder section.

EnergyAustralia does not believe that monetary incentives/penalties to the delivery of planned improvements to network reporting systems are required.

If the Tribunal does not consider that these improvements are adequate then EnergyAustralia would be happy to consider any additional initiatives that the Tribunal may deem appropriate.

Arrangements for audit

EnergyAustralia agrees that performance data needs to be independently verified, but given the current status of reporting systems, it is believed that greater value would be obtained in undertaking these initiatives, at least initially, as a cooperative venture rather than an audit process. Once the performance measurement and reporting framework has been established and clearly understood then it is agreed that an auditing process would be appropriate.

Excludable events

The Tribunal seeks comment on whether certain events should be excluded from data used in any service quality incentive regime, and if so, what criteria for exclusion would be most appropriate. Comments are also sought on alternative ways to address the impact of exogenous events, including the possibility of having caps on the proportion of revenue that can be exposed to any service quality incentive scheme.

EnergyAustralia believes that it is important that events outside a DNSP's ability to control, manage or mitigate should be excluded from any measure of performance. Whilst not excluding these events may make it easier to administer such a scheme, the inclusion of such events would be likely to undermine the effectiveness of a service incentive scheme by adding unnecessary risk.

DNSP's should be entitled to apply for exclusions but this should not be the primary form of exclusion, as it permits too much scope for regulatory discretion. The primary form of exclusion should be a set of clearly defined excluded events.

Given the increased importance of these measures, with the prospect of financial incentives and penalties, it is suggested that the SCNRRR definitions should be reviewed in a number of key areas. For example, the 3 minute definition of a major event discriminates against regions with a larger number of customers or with a greater geographic area. Storms and bushfires should be defined on the basis of statistical criteria which would exclude events outside of definable upper (and lower) control limit. This would have the effect of removing the subjectivity associated with the definition of "major storm events" and the associated inconsistencies in interpretation and reporting.

MECHANISMS

Creating incentives via service quality expenditure schemes

The Tribunal seeks views on the scope for creating incentives for service quality through its monitoring of service quality expenditure schemes. The Tribunal notes its commitment to avoiding micro-management of the DNSPs, and comments should be made within this context.

The capital and operating strategies contained within EnergyAustralia's current pricing submission were designed around achieving clearly defined customer outcomes, particularly in terms of network reliability and performance.

EnergyAustralia has projected network performance by major network segment (CBD, Urban, Rural) and is committed to achieving these outcomes. EnergyAustralia accepts that these targeted outcomes should be the basis upon which its performance is assessed at the end of the next regulatory period. As a result, a form of incentive mechanism already exists within the current form of regulation. Robust network reliability measures exist at a regional level and should be available shortly by network type (CBD, Urban & Rural).

EnergyAustralia would argue that the Total Cost Review currently being undertaken by Meritec Ltd. provides an existing mechanism for reviewing service quality expenditure schemes proposed by DNSP's. The review of these schemes needs to be done in the context of the overall resource requirements of DNSP's and having regard to their current performance levels. It is also agreed that additional work needs to be done in clearly understanding the relationship between individual measures of network performance, such as duration and frequency, and their impact in terms of overall customer service levels.

EnergyAustralia is keen to work with the Tribunal to progress this issue.

Data collection/monitoring/publication

The Tribunal seeks views on the extent to which incentives for service quality can be created through the collection and publication of performance data.

EnergyAustralia agrees that the service reliability measures published by the MEU should be extended to incorporate other measures of service quality. In addition to 'naming and shaming' of poorer performing DNSP's, publication of this data would confirm and provide an endorsement for the good performance of better performing DNSP's.

The impact of future changes and improvements in data systems and acquisition on reported performance cannot be determined at this stage. It is suggested that this will need to be investigated as part of the paper trial and a mechanism developed for compensating for any impacts.

S Factors

As indicated above, EnergyAustralia suggests that the scope and effectiveness of existing incentive measures (ie: general form of regulation, GCSS and Customer Contracts) should be further investigated and identified before an additional service incentive mechanism is introduced. It may be that the enhanced publication of service performance levels as a legislative of licence requirement, combined with specific use of these measures in defining targeted investment outcomes as an integral part of pricing submissions may provide an adequate service incentive mechanism. If it is identified that these measures are not adequate, then EnergyAustralia supports the investigation and trialing of a specific service incentive mechanism.

In reference to these measures EnergyAustralia endorses Country Energy suggestions that any S factor should be:

- ♦ simple, clear and transparent.
- ♦ structured so as to limit the financial risk to companies until more is known about likely outcomes.

What form should the S-factor take?

The Tribunal seeks comment on the form that the S factor should take, and on the extent to which features of the S factors discussed above are applicable in the NSW context.

Comments are also sought on any alternative forms that the S factor might take.

The following comments are provided on the existing mechanisms applying in other Australian jurisdictions.

i) The ESC Approach

The following aspects of ESC approach are considered appealing;

- ♦ Integration with price control formula
- ♦ Performance based on difference between a pre-determined targeted performance level and actual performance.
- ♦ Weighting of individual performance measures based on the relative value attached to them by customers.
- ♦ Disaggregation of performance by network type
- ♦ Targets set on an individual company basis by network type (but not necessarily the basis of setting or their levels).

Other aspects of the ESC approach would need to be considered as part of the paper trial, in particular, the necessity for DNSP's to apply for exclusions under the regime should be avoided.

ii) The OFGEM Approach

The following aspects of the OFGEM are appealing;

- ♦ Magnitude of reward (-1.75%)/penalty (+2%), at least initially.
- ♦ Use of dead-bands.
- ♦ Inclusion of planned interruptions in reliability measures (as is currently the case)
- ♦ Exclusion of interruptions caused by Transmission interruptions (apart from 10% of duration to provide incentive to mitigate transmission interruptions)

Disagree with the following aspects;

- ♦ The use of telephone response as a measure of customer service

- ♦ Commitment to reward frontier performance – this commitment would need to be clearly defined otherwise the value of this would be heavily discounted by regulated agencies).

iii) ESCOSA Approach

This approach which integrates average service standards, guaranteed service levels and a service incentive that targets reliability improvements to worst served customers (provided that it is disaggregated between network type) is very appealing.

EnergyAustralia agrees with the selection and weighting of measures based on customer survey results, however, such levels and weighting need to be tailored to the individual organisation.

Should mechanisms be symmetric

The Tribunal seeks views on whether any mechanism adopted should reward as well as penalise companies depending on service quality performance, and if so, should the incentive rates for rewards be of the same magnitude as the incentive rates for penalties?

EnergyAustralia argues that the mechanism should be structure in a way that reflects the risks, customer value (lost or gained) and costs (incurred or avoided) associated with achieving or not achieving the targeted performance levels.

When should price adjustments be made

The Tribunal seeks views on the relative advantages of a system that provides incentives for companies to meet/exceed service quality targets in every year of the control period, as opposed to for the period as a whole. Views are sought as to whether applying monetary penalties on an annual, as opposed to five-yearly basis would further strengthen these incentives.

EnergyAustralia argues that if a mechanism were introduced price adjustments should be made annually to provide DNSP's with a more timely incentive to achieve. It is argued that if price adjustments were made at the time of regulatory reset then it is doubtful as to whether the mechanism would provide any significant incentive additional to those available within existing regulatory mechanisms.

Use of dead bands

The Tribunal seeks views on whether the incentive and complexity disadvantages of dead bands exceed the advantages.

EnergyAustralia believes that the use of dead-bands is likely to be the most effective mechanism to deal with the annual variability of individual network reliability measures.

Target Setting

Alternative approaches to target-setting

The Tribunal seeks views on the most appropriate approach to target-setting, and particularly on the following:

- *Do the pros and cons of alternative approaches to target setting detailed above suggest that the most appropriate approach might involve a combination of information sources?*
- *Do the fact that companies operate in significantly different operating environments mean that company-specific, rather than relative targets are appropriate for NSW DNSPs, particularly with current information levels?*

EnergyAustralia supports the use of targets set on the basis of both company specific and comparative industry benchmark data in the initial stages. Comparative benchmarks are useful in determining the scope for service improvements but consideration needs to be given to the ability of individual companies to achieve the targets otherwise this may result in the setting of unrealistic targets which may undermine the effectiveness of the intended incentive mechanism.

How ambitious should targets be?

The Tribunal seeks views on what the appropriate levels for targets should be, and whether/how these should move during the regulatory period. Views are also sought on ways in which any disincentives to conduct maintenance and improvement work can be avoided.

EnergyAustralia would argue that the Total Cost Review undertaken by Meritec Ltd. provides an existing mechanism for reviewing the performance targets proposed by DNSP's. Targets should be set on the basis of a considered and careful review of the proposals and circumstances of each agency, particularly in the initial stages. EnergyAustralia does not believe that the straightforward application of industry benchmark targets is the solution to the issue of setting performance targets.

The Tribunal's recently adopted approach of undertaking an 'Total Cost Review' of DNSP's is a recognition of the fact that the evaluation of a regulated agencies appropriate capital and operating requirements is a complex matter. Over the last several years, EnergyAustralia has undertaken a major review of maintenance standards and investment governance arrangements. This review is in recognition of the increased requirements of both shareholders and regulators alike in terms of establishing the prudence and efficiency of the significant investments made by DNSP's.

EnergyAustralia believes that there are already considerable incentives for New South Wales distributors to undertake maintenance and improvement works. The performance of the publicly owned New South Wales electricity distribution businesses is assessed against multiple criteria, including financial. Increasingly, the shareholder is concerned with the operational performance and risk profiles of these businesses. As a result, EnergyAustralia believes that the current regulatory and ownership arrangements for New South Wales DNSP's provide real and adequate incentives to undertake required maintenance and improvement work.

PENALTY/REWARD SETTING

The Tribunal invites comment on the appropriate basis for the setting of any penalties and rewards. In particular, views are sought on the attractiveness of having a percentage cap on the amount of revenue exposed to any penalties/rewards, and if such a cap is favoured, views on the appropriate size (especially given current data robustness).

The basis for penalty/reward setting

As indicated above, these comments are qualified on the basis that it is established that current regulatory instruments are inadequate and a separate service incentive mechanism is required.

EnergyAustralia would argue that the ultimate basis for the setting penalties and rewards should be the value customers attach to the achievement of those service outcomes. It is recognised that in the initial stages and until both agencies and regulators fully understand the operational aspects of a specific service incentive mechanism, it is not appropriate to base the service incentive mechanism upon the entire value attached to the targeted levels of a particular aspect of service. It is agreed that as an interim approach, customer valuations and preferences could be used to determine the relative weights of incentive rates applying to the various measures of service and a more conservative approach to setting the levels of penalties/rewards should be adopted.

Caps on penalties and rewards

EnergyAustralia would argue that caps expressed in terms of a percentage of revenue at risk would be an effective way of limiting the revenue risk associated with the operation of a service incentive mechanism.

Other Considerations

EnergyAustralia agrees that the relationship between the various service performance measures needs to be clearly understood and recognised. It may well be the case that rural customers may attach significantly different values to the duration or frequency of supply interruptions than urban customers. It is argued that any differences in customer preferences should be reflected in the structure of a service incentive mechanism.

Links to GCSS

As has been indicated above, EnergyAustralia believes that guaranteed customer service standards could be extended to include network reliability.

EnergyAustralia is currently investigating the feasibility of including network performance standards within a customer contract. It is envisaged that this could be an effective mechanism for ensuring that service levels are maintained above defined minimum standards and, if not, customers would be compensated.