

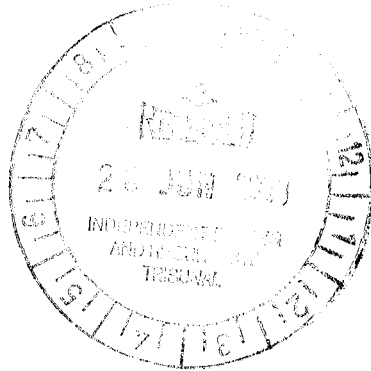


# MINISTRY OF ENERGY AND UTILITIES

NEW SOUTH WALES GOVERNMENT

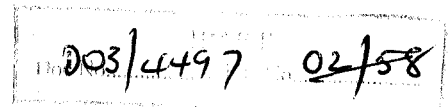
MINERALS AND ENERGY HOUSE  
29-57 CHRISTIE STREET, ST LEONARDS 2065  
PO BOX 536 ST LEONARDS NSW 1590  
DX 3324 ST LEONARDS  
TELEPHONE (02) 9901 8888  
FACSIMILE (02) 9901 8402  
INTERNET: <http://www.energy.nsw.gov.au>  
ABN 43 863 863 906

*A Emma*



**Reference No: M01/3135**

Dr Thomas G Parry  
Chairman  
Independent Pricing and Regulatory Tribunal  
Level 2, 44 Market Street  
SYDNEY NSW 2000



Dear Dr Parry

I write in relation to IPART's issues paper, "Providing Incentives for Service Quality in NSW Electricity Distribution".

The proposal to introduce service quality improvement incentives is supported. The Ministry of Energy and Utilities has been promoting improved electricity network reliability reporting by DNSPs and publishing its own Electricity Network Performance Reports over the last four years. There has been an evolutionary process of improvement, both in the reporting itself, and in the asset management systems which underpin the reporting by DNSPs. In the intervening period, enhancements to reporting include disclosure of poorly performing feeders, and in 2002/2003, implementation of the national reporting framework developed by the Steering Committee on National Reliability Reporting Requirements.

The Ministry's preferred option for the introduction of an S-factor in the 2004 Network Determination is a paper trial S-factor, accompanied by a monetary incentive to improve data quality within the regulatory period. A paper trial is preferable as there is significant potential for a revenue bias to be associated with the premature introduction of an S-factor incentive scheme. The Ministry anticipates that data will be sufficiently accurate to allow DNSPs to respond to S-factor incentives in two to three years.

A monetary incentive for improving data quality would encourage DNSPs to actively participate in the paper trial. Improvements in the accuracy of reliability data may result in the appearance of a decline in network reliability, however this could be addressed by encouraging data improvements prior to the formal introduction of a penalty and incentive regime.

The Ministry's comments on issues related to the introduction of incentives for service quality are attached (Attachment A). If you have any inquiries in relation to

the Ministry's submission, please contact Julia Finn, A/ Senior Project Officer, Energy Policy on 9901 8376.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Brian Steffen', written in a cursive style.

Brian Steffen 24-6-03  
Director-General

## Attachment A – Comments on incentives for service quality improvements in NSW electricity distribution

### Types of service quality

A paper trial should be based on the IPART proposed reliability measures of SAIDI, SAIFI, and CAIDI. It is premature for MAIFI to be used at this stage, although the Ministry is encouraging DNSPs to capture and report this measure, which is relevant to many customers and can, if excessive, indicate deficiencies in network management (e.g. tree trimming overdue) and poor customer service standards. MAIFI should be added to any incentive mechanism at an appropriate time in the future.

### Reliability Reporting

PB Associates, in its report "Reliability Measurement – Review of NSW Distribution Network Service Provider's Measurement and Reporting of Network Reliability" prepared for IPART, with Ministry assistance, on 11 October 2002 recognises that: *"In general, PB Associates found the systems, processes and procedures for the capture and reporting of reliability information to be reasonably robust. PB Associates has identified a number of issues that may lead to data inaccuracy. .... Without exception, each of the DNSPs has projects that are currently being implemented that will result in improvement to the capture and reporting of reliability information."*

PB Associates also noted in their report that *"Based on the measurement improvements detailed in sections 4.7 and 4.8, it is likely that future reliability reporting figures will be more accurate than those of the present."* (in 2002).

The projects and reporting improvements referred to by PB Associates have been put in place by DNSPs largely in response to the reporting requirements instituted by the Ministry and in response to the new Regulatory framework under the Electricity Supply (Safety and Network Management) Regulation 2002, which was extensively consulted with stakeholders during the two years prior to commencement in September 2002. The new framework improves the disclosure and accountability of DNSPs on asset management strategies, plans, systems and performance, which will further drive improvements in reliability data quality and reporting.

The Ministry is creating further incentives for data quality improvements by:

- Requiring implementation by DNSPs of new network management plans in August 2003. These plans are required to address, among other things, asset management strategies, the process used for setting customer technical service standards for quality and reliability of supply, and strategies for managing and complying with that process and those standards.
- requiring DNSP's, in relation to their annual network performance reports to the Ministry:
  - To appoint an independent appraiser in accordance with published guidelines and include the appraisal report in the performance report to the Ministry;
  - To include an assessment of the accuracy/integrity of the data; and

- Where a network operator is unable to report in accordance with the agreed reporting definitions, to note in the annual report the scale of the problem including costs to rectify, plans and expected timeframe to fix the problem. Where exact data is not available, estimates should be made together with the methodology for making estimates. The independent appraiser must also note assumptions made and methodology used and take them into account in the assessment of the integrity of the network operator's results and reporting system. Where appropriate, estimated reliability ranges could be provided.
- Ensuring publication of both the performance report including details of the independent appraisal and any measurement problems.
- Ensuring any DNSP not taking reasonable actions to address measurement difficulties is held accountable.

When there is sufficient confidence in the performance data, and an incentive mechanism is introduced, separate independent auditing of any measures incorporated in the incentive mechanism should also be undertaken to ensure ongoing integrity of data.

### **Excludable events**

Excludable events present a further difficulty in measuring and demonstrating reliability improvements. If a paper trial is commenced in 2004, and if a new approach to excluded events is not then in place, companies should be allowed to exclude certain pre-specified proportions of the impact of events meeting the SCNRRR definitions. Disclosure and justification of exclusion by the DNSP should be required with the regulator able to require re-inclusion where appropriate.

There are many external influences which adversely impact on the reliability of electricity networks. For this discussion it is helpful to break these down into two groups:

1. Group 1 influences: Those external influences, such as severe wind storms, bushfires, vehicle impacts and vandalism, which are mostly beyond the control of the network operator for the network as presently designed. To reduce the impacts of these influences, major capital works would generally be required, such as undergrounding, relocating or redesigning mains, acquiring wider easements and upgrading security of structures.
2. Group 2 influences: Those external influences, such as less severe storms, lightning, animal or bird interference, the impact of which can be reduced, but not generally eliminated, by various minor network operator actions. These actions might include improved maintenance or modified network designs involving relatively minor capital works (e.g. incorporation of animal barriers in problem areas, improved tree trimming practices, or use of insulated conductors at vulnerable locations).

The Ministry collects several reliability measures, in accordance with the agreed SCNRRR framework, each of which has value for different purposes. The *overall interruptions data set* is necessary to understand what customers are experiencing on average, whereas the *Normalised Distribution Network – unplanned data set* gives

the best indication of the effectiveness of a DNSP's network management plan and strategies. The former varies excessively from year to year (e.g. for Integral Energy the 2001/2002 result was more than three times higher than the result for each of the previous three years), and there are valid reasons for such performance variations (e.g. bushfires and unusually severe storms greatly exceeding the network design capabilities). The normalised data however is relatively steady from year to year and has the greatest potential to indicate any underlying improvements in network management (e.g. for Integral Energy, the normalised measure increased by only 3 minutes, or 3%, per customer in 2001/2002 compared with 520 minutes, or 340%, in the overall measure).

This is not to say that only the normalised measure should be used in any incentive mechanism. It is important to ensure that there is an incentive to improve, particularly for the Group 2 influences. One approach which should be considered is to include only a very small percentage of the impact of Group 1 influences (e.g. 5%), but a larger percentage of the impact of Group 2 influences (e.g. 50%) in the incentive mechanism.

The Ministry intends to shortly initiate a review of the issue of exclusions under the SCNRRR framework to develop an approach to exclusions which is logical, accepted by all stakeholders, and which delivers the desired outcomes. The present approach does not achieve this.

If a paper trial is commenced in 2004, and if a new approach to excluded events is not then in place, companies should be allowed to exclude certain pre-specified proportions of the impact of events meeting the SCNRRR definitions. Disclosure and justification of exclusion by the DNSP should be required with the regulator able to require re-inclusion where appropriate.

### **Street lighting**

The Ministry believes that guaranteed customer service standards should be expanded to include street light services standards or those services where a customer group such as local councils without choice in the provision of services can be readily identified.

In the event that street lighting is defined as a prescribed distribution service it is imperative that service standards are developed that reflect funding arrangements. Considering the electricity network operator is remunerated for providing this service through regulated revenue it is important that IPART play a greater role in the development of service standards in this area.