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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Submission on Draft Report - Distribution Reliability Measures June 2014

The Australian Energy Regulator (AER) welcomes the opportunity to provide this submission to the Australian Energy Market Commission's (AEMC) draft report on Distribution Reliability Measures.

Our staff have participated in the development of the draft report and we note that many of the specific issues we have raised have been addressed in the draft report. There remains however a potential for ambiguity to arise around the approach taken to major event days (MEDs) which we consider should be addressed before this report is finalised.

I note that in section 4.2.2 the AEMC states:

We propose that the 2.5 beta method described by the IEEE, and referred in the AER's STPIS, be used for bench marking and be the default method to be used when applying an economic incentive scheme to the distributor.

Later in section 4.3 this is clarified by the additional text:

The views expressed in this section are high level principles that may be relevant to entities that apply distribution reliability measures. However, ultimately the decision whether to remove any exclusions or major event days from the distributor's data-set of interruptions depends on the relevant regulatory body or distributor using the measures. In particular, this decision depends on overall objective of the application of the distribution reliability measures, and on the philosophy of the regulatory body or distributor designing the associated economic incentive, bench-marking or reporting scheme, or operating strategy

As you will be aware, the AER's Service Target Performance Incentive Scheme (STPIS) has been in existence for some time now; the current distribution STPIS dates to 2009. The draft report clearly recognises the STPIS and has drawn extensively on it in developing draft

definitions. Following the implementation of the Better Regulation package of measures, the AER intends to review the operation of the STPIS to review its effectiveness and application. We consider a major element of this review will be to consider whether the STPIS is appropriately rewarding or penalising service providers for events that are within their control. Of necessity, this will mean we will review the approach to be taken to MEDs, particularly to determine if the current approach to exclusions is appropriate. This review will be a public process and I would stress that the AER has no pre-determined view of the outcome, nor the form of the options to be considered in the review.

However, I would be concerned if the text in clause 4.2.2 were to be interpreted as limiting the AER's discretion to consider alternative methods of addressing (or not addressing) exclusion events, particularly MEDs. This is notwithstanding the apparent qualifications noted in section 4.3 of the draft report. Whilst the IEEE 2.5 Beta method is currently our preferred method for determining MEDs, a subsequent review may determine that a better approach may depart from that method, either partially or wholly.

In recent discussions with distribution service providers the possibility has been raised that some of the volatility of payments under the STPIS may be due to variations in weather due to climate effects such as the El Nino and La Nina cycles. If so, this possibility should be examined along with other possible causes of volatility before any decision is made to settle on a default method, such as IEEE 2.5 beta, for incentive schemes. The reference to the 2.5 beta method being the default method for incentive schemes should therefore be revised to make clear that whilst it is seen as a reference methodology that might be applied for general reporting and benchmarking, its use as the basis of economic incentive payments should be open to review. For this reason, a clearer statement to this effect would be preferable.

As payments under the STPIS scheme can be a significant percentage of service provider revenues we think it important that customers have full confidence that the scheme is rewarding appropriate behaviours and is not affected unduly by unmanageable events.

Yours sincerely



Andrew Reeves
Chairman