

9 October 2015



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Australian Energy Market Commission  
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Dear Mr Pierce,

**Re: ERC0190 - National Electricity Amendment (Common Definitions of Distribution Reliability Measures) Rule 2015**

Thank you for the opportunity to comment on the proposed rule change *National Electricity Amendment (Common Definitions of Distribution Reliability Measures) Rule 2015 (rule change)*.

Jemena Electricity Networks (**JEN**) Ltd supports this change as it delivers efficiency to electricity customers across the national electricity market (**NEM**) by creating greater consistency in measuring reliability performance. Additionally, in the latest round of regulatory determinations, benchmarking played a role in setting regulatory allowances. In this process some distribution network service providers (**DNSPs**) expressed concern that factors unique to their operating environment are not sufficiently catered for when undertaking benchmarking analysis.<sup>1</sup> JEN sees the move towards alignment of reliability measures as a positive step towards addressing the impacts of operating environmental factors by reducing the scope of items required to be normalised for differences.

These benefits, however, may be undermined when reliability measures—that contribute toward the calculation of incentive mechanisms and revenue allowances—are changed but not appropriately transitioned.

There are two areas where changes in reliability measures can affect economic value in this rule change, these include:

- Service target performance incentive scheme (**STPIS**) – reliability measures are a direct input into calculating service performance rewards or penalties. Any changes in the measurement technique will have a direct impact on the revenues of a DNSP. Specifically, the STPIS scheme incorporates performance impacts relative to historical trend. If the measurement technique changes on a relative measure then there will be a positive or negative impact because of the change.

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<sup>1</sup> Australian Competition Tribunal (ACT), "Applications by Public Interest Advocacy Centre Ltd, Ausgrid, Endeavour Energy and Essential Energy [2015], ACompT 2", 17 July, 2015, Pg. 11

A live example where performance incentives combined with changes in the regulatory framework occurred in Victoria as the jurisdiction moved to economic regulation under the National Electricity Rules (**NER**) for the 2011-15 regulatory control period. In this case, the changes to the s-factor scheme (the service performance mechanism that pre-dates the STPIS scheme) had material impacts to revenue of the Victorian DNSP's. It is only in the 2016-20 regulatory control period<sup>2,3</sup> that the complexity is being addressed.

Had a transparent and predictable transition framework been applied, the protracted and complex process covering three regulatory control periods could have been avoided.

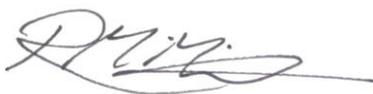
To ensure the operation of incentive mechanisms and strength and form of incentives must be known by the business in advance if they are to be effective in driving behaviour.

- Network service provider performance – reliability is one of the inputs used to determine network performance in benchmarking analysis. With the AER applying benchmarking to assist it determine operating expenditure allowances in some recent regulatory determinations<sup>4</sup> (and therefore incorporating reliability measures in the determination), there is potential for economic value to be inadvertently influenced in the determinations because of changes in the reliability measurement process.

In the introduction section of the AEMC's consultation paper transitional issues are contemplated, however, these are not reflected in the proposed rule changes listed in Appendix A. JEN therefore proposes the rule change be amended to require the AER to take into account transitional issues given the significance noted above.

If you wish to discuss any aspect of this submission, we ask that you contact Siva Moorthy on (03) 8544 0000.

Regards,



Robert McMillan  
General Manager Regulation

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<sup>2</sup> AER, "Victorian electricity distribution network service providers Distribution determination 2011–2015", October 2010, s. 15.6.6.5.

<sup>3</sup> JEN, "2016-20 regulatory proposal", 30 April 2015, s6.2.5

<sup>4</sup> AER, "Final decision, Ausgrid distribution determination 2015–16 to 2018–19, Attachment 7 – Operating expenditure", April 2015, p 7-52.