



UNITED ENERGY
Distribution

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Our reference: UE-ED-08
Your reference: M2009/519

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VICTORIA 3001

Dear Mr Pattas,

Re: United Energy Distribution – Guaranteed Service Level (GSL) Payment Obligations for the 2011 to 2015 regulatory control period

In a letter dated 05th February 2010, the AER has requested information about the following data series:

- The historical number and associated dollar value of GSL events for the current regulatory period (2006 to 2010) under the Codes.
- The forecast number of GSL events over the 2011 to 2015 regulatory control period based on the requirements of the Codes.
- A forecast of the expected GSL payments over the 2011 to 2015 regulatory control period based on the requirements of the Codes.
- An explanation of how UED has applied the exclusion criteria when developing its forecasts of GSL payments.

Response by United Energy Distribution

The guaranteed service levels scheme is set out in the Victorian Electricity Distribution Code¹ and in the Final Decision of the Electricity Distribution Price Review, 2006 to 2010².

¹ Electricity Distribution Code, Essential Services Commission, August 2009.

² Final Decision, Electricity Distribution Price Review, 2006 to 2010, Volume I, Statement of Purpose and Reasons.

The historical number and associated dollar value of GSL events for the current regulatory control period (2006 to 2010) under the Codes

The number of payments made for GSL events, and their associated dollar values, are shown in the attached workbook. Please refer to <GSLforecastsmethod29032010AER.xls>.

Historically, the events that might trigger a GSL payment have been categorised as follows:

- Incidents affecting the reliability of supply. The GSL payments are determined according to the duration of a supply interruption and/or the frequency of interruptions.
- Customer service issues. The specific variables considered are appointments, the time taken to make new electricity connections, and the repair of street lights.

The dollar values are shown in nominal terms.

The forecast number of GSL events over the 2011 to 2015 regulatory control period based on the requirements of the Codes

The predicted number of GSL events over the 2011 to 2015 regulatory control period is presented in the enclosed workbook. The categories of GSL payment shown correspond with those in the Victorian Electricity Distribution Code and in the Final Decision of the Electricity Distribution Price Review (2006-10).

The exclusion criteria that have been applied to the forecasts of GSL payments are consistent with those developed under the major event day regime of the AER Service Target Performance Incentive Scheme (STPIS). Version 01.2 of the STPIS document was released on 24th November 2009.

A forecast of the anticipated GSL payments over the 2011 to 2015 regulatory control period based on the requirements of the Code

The expected dollar value of GSL payments over the 2011 to 2015 regulatory control period is computed by multiplying the number of GSL events by the expected GSL unit rate. The unit rates for GSL events are summarised in Table 1 below.

Table 1: The applicable unit rate for each category of GSL payment

GSL event	GSL payment per event (\$)
Appointments not met within 15 minutes of agreed time	\$20
Connections not made on agreed date	\$50 per day up to a maximum of \$250
Customer experiences more than 20 hours of unplanned, sustained supply interruptions per annum	\$100
Customer experiences more than 30 hours of unplanned, sustained supply interruptions per annum	\$150
Customer experiences more than 60 hours of unplanned, sustained supply interruptions per annum	\$300
Customer experiences more than 10 unplanned, sustained supply interruptions per annum	\$100
Customer experiences more than 15 unplanned, sustained supply interruptions per annum	\$150

GSL event	GSL payment per event (\$)
Customer experiences more than 30 unplanned, sustained supply interruptions per annum	\$300
Customer experiences more than 24 momentary interruptions per annum	\$25
Customer experiences more than 36 momentary interruptions per annum	\$35
Public lighting not repaired within 2 working days of the distributor being notified	\$10

An explanation of how UED has applied the exclusion criteria when developing its forecast of GSL payments

- Reliability of supply GSL payments

In the Regulatory Information Notice (RIN) issued to UED in late 2009, forecasts were prepared for the variables representing cumulative totals of sustained, interruption durations per annum. The forecasts were based on an average of the outcomes from 2006 to 2009. For the GSL category of customers experiencing outages adding up to more than 20 hours per annum, the projections were derived as an average of the historical data over a longer period, from 2004 to 2009. For all three variables representing an aggregate of the hours of sustained interruptions, data for the last six months of 2009 was estimated. The AER exclusion criteria were also applied on a preliminary basis.

The full year 2009 data is now available and UED can conclude that the total value of reliability GSL payments made in 2009 was \$886,350. This amount has been computed by reference to the ESCV exclusion regime. The amount paid out in 2009 would reduce to \$160,500 if the new AER exclusion criteria were applied, resulting in exemptions for the major event days of 29th January, 8th February, 3rd March and 26th November.

The following are the components which comprise the reliability GSL payments in 2009:

- 7,551 payments for supply interruptions of over 20 hours' duration and less than 30 hours;
- 783 payments for supply interruptions over 30 hours and less than 60 hours;
- 2 payments for supply interruptions over 60 hours;
- 132 payments to those customers which endured more than 10 sustained, unplanned interruptions.

Application of the new exclusion criteria would result in a reduction in the GSL payments in 2009 as explained below:

- 1,362 payments for supply interruptions of over 20 hours' duration and less than 30 hours;
- 152 payments for supply interruptions over 30 hours and less than 60 hours;
- 2 payments for supply interruptions over 60 hours;
- 9 payments to those customers which endured more than 10 sustained, unplanned interruptions; and
- A total payment value of \$160,500.

UED commissioned independent consultants, AECOM, to investigate the impact of climate change and weather-related events on the company's distribution network over the period from 2011 to 2015. The AECOM research³ used data from 2008 as a reference point for assessing the effects of weather-related phenomena on the reliability of electricity supply, and on the performance of the distribution network more generally. AECOM drew upon empirical work from the CSIRO and found that the annual average number of hot days and very hot days from 2011 to 2015 would be similar to the number reported for the 2008 reference year. In terms of wind, AECOM foreshadowed a large increase, from 2011 to 2015, in the incidence of wind-related events, by comparison with the situation in 2008. The overall impact of high wind days on unplanned SAIDI was expected to be an increment of 28 minutes however, the contribution net of excluded events would be brought down to 8 minutes.

In view of the foregoing, UED proposes that the forecast of reliability GSL payments for 2011 to 2015 should be based on an average of the number of payments made in 2008 and 2009, taking full account of the AER exclusion criteria. The choice of data from 2008 and 2009 is appropriate because:

- A significant wind storm occurred in April 2008 while a significant heat wave was noted in January 2009; and
- As has already been noted, AECOM predicted that the profile of hot weather days from 2011 to 2015 would be comparable to that already recorded for 2008. In addition, the number of wind storms would be expected to increase.

The predicted number of reliability of supply, GSL payments is summarised in Table 2 below. The payments have been rounded up to give the nearest integer, or whole number value.

Table 2: The projected number of payments under reliability of supply GSL categories

Reliability payment events (after correcting for AER major event days)	2008	2009	Average
Customers experiencing more than 10 unplanned, sustained supply outages per annum	0	9	5
Customers experiencing more than 20 (but less than 30) hours of unplanned, sustained supply interruptions per annum	407	1,362	885
Customers experiencing more than 30 (but less than 60) hours of unplanned, sustained supply interruptions per annum	55	152	104
Customers experiencing more than 60 hours of unplanned, sustained supply interruptions per annum	1	2	2

The value of the reliability of supply, GSL payments has been worked out to be \$160,500 per annum from 2011 to 2015.

- Appointment GSL payments

³ AECOM (2009). Assessment of climate change impacts on the United Energy distribution network for the 2011-2015 EDPR. Commercial-in-confidence, prepared for United Energy Distribution, 7th September 2009.

The forecast of GSL payments for appointments not met within 15 minutes is calculated from an average of the payments made from 2004 to 2009.

- Connection GSL payments

The forecast of GSL payments for not making connections on time is computed from an average of the connections achieved between 2004 and 2009 in respect of new premises or new connections. For the period from 2004 to September 2008, GSL payments were also made for late re-connections (that is, for late connections in relation to premises which have recently been re-tenanted), however this particular component of the scheme has now ceased. Accordingly, payments for move-in and move-out connections have not been incorporated into the projections.

- Streetlight repair GSL payments

The projections of GSL payments for untimely streetlight repairs are derived as an average of the number of individual payments made between 2004 and 2009. Consequently, UED is forecasting that it will enter into 29 payment commitments worth a total of \$290 in each year of the forthcoming regulatory period.

Concluding remarks

We trust that the explanatory material in this letter, when examined in conjunction with the accompanying spreadsheet workbook, has provided a full answer to the AER queries contained in written correspondence from Chris Pattas, dated 05th February 2010. If further clarification or additional details are needed, please do not hesitate to contact Jeremy Rothfield, regulatory economist, on (03) 85407808.

Yours sincerely,

Jeremy Rothfield
Regulatory Economist