ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA

10/11 Annual Performance Report

South Australian Energy Supply Industry

November 2011

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Public Information about the Commission's activities
Information about the role and activities of the Commission, including copies of latest reports and submissions, can be found on the Commission's website at www.escosa.sa.gov.au.

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GLOSSARY OF TERMS

AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APR	Annual Performance Report
COMMISSION	Essential Services Commission of SA established under the ESC Act
CPI	Consumer Price Index as defined by the Australian Bureau of Statistics (using the 'all groups' financial year index for Adelaide (ABS catalogue no. 6401.0))
EIO	Refers to the Energy Industry Ombudsman Scheme. The Scheme is established through the Constitution of the Energy Industry Ombudsman (SA) Ltd, a company limited by guarantee and established on 16 October 1999. All licensed electricity retailers selling to customers with annual electricity consumption of less than 750MWh, and electricity distribution and transmission entities in SA are required to participate in the Scheme, as are all licensed gas retailers selling to customers with annual gas consumption of less than 10TJ, and gas distribution entities in SA
ELECTRICITY ACT	Electricity Act 1996 (SA)
ELECTRICITY DISTRIBUTION	Refers to the operation of equipment used to convey electricity through a distribution network
ELECTRICITY DISTRIBUTION CODE	Electricity Distribution Code, made by the SAIIR on 11 October 1999, pursuant to s.23 of the Independent Industry Regulator Act 1999, and as subsequently varied by the Commission
ENERGY RETAIL CODE	Energy Retail Code, made by the Commission on 8 March 2004, pursuant to s.28 of the ESC Act
ENVESTRA	Envestra Ltd (ACN 078 551 685) is authorised to operate a gas distribution network by a gas distribution licence issued by the Commission under s.21(1) of the Gas Act
ESC ACT	Essential Services Commission Act 2002
ELECTRICITY TRANSMISSION CODE	Electricity Transmission Code, made by the SAIIR on 11 October 1999, pursuant to s.23 of the Independent Industry Regulator Act 1999, and as subsequently varied by the SAIIR and the Commission
ETSA UTILITIES	ETSA Utilities (ABN 13 332 330 749) is a partnership of CKI Utilities Development Limited (ABN 65 090 718 880), HEI Utilities Development Limited (ABN 82 090 718 951), CKI Utilities Holdings Limited (ABN 54 091 142 380), HEI Utilities Holdings Limited (ABN 50 091 142 362) and CKI/HEI Utilities Distribution Limited (ABN 19 091 143 038)
FRC	Full Retail Contestability, the situation in which all customers become contestable, i.e. able to choose their retailer. It occurred for electricity on 1 January 2003 and effectively for gas on 28 July 2004
GAS ACT	Gas Act 1997 (SA)
GAS DISTRIBUTION	Refers to the operation of equipment used to convey gas through a distribution network
GAS DISTRIBUTION CODE	Gas Distribution Code, made by the Commission on 8 March 2004, pursuant to s.28 of the Essential Services Commission Act 2002, and as subsequently varied by the Commission
GJ	Gigajoule, which is the equivalent of one thousand MJ, a unit of energy
GSL	Guaranteed Service Level

GST	Goods and Services Tax (A New Tax System (Goods and Services Tax) Act 1999)
GWH	Giga Watt hour, which is the equivalent of 1,000 MWh
IVR	Integrated Voice Response, an automated system used for answering telephone calls
KWh	kilo Watt hour, which is the equivalent of 1,000 Wh, an amount of energy approximately equivalent to running a single bar radiator for one hour
LARGE CUSTOMER	All customers with an annual electricity consumption of 160 MWh and above, or annual gas consumption of 1TJ and above
MJ	Megajoule, which is the equivalent of 1,000,000 joules, a unit of energy
MW	Mega Watt, which is the equivalent of one million Watts
MWh	Mega Watt hour, which is the equivalent of 1,000 kWh
NECF	National Energy Customer Framework
p.a.	per annum
PV	Photovoltaic
REAL	refers to relevant revenue or price information that has been converted to real dollars (inflation adjusted), i.e. revenue and price information for all years converted to dollars of the relevant base year (e.g. 2009/10) using a CPI
SA	South Australia
SAIDI	System Average Interruption Duration Index, means the length of time each customer is without supply when averaged over all customers in the distribution network (or defined part of the distribution network)
SAIFI	System Average Interruption Frequency Index, means the number of supply interruptions each customer experiences for the year when averaged over all customers on the distribution network (or defined part of the distribution network)
SAIIR	SA Independent Industry Regulator, established by s.4 of the Independent Industry Regulator Act 1999. The SAIIR was replaced by the Commission in September 2002
SCADA	Supervisory Control and Data Acquisition
SMALL CUSTOMER	Refers to a customer with an annual electricity consumption of less than 160 MWh, or annual gas consumption of less than 1TJ
TJ	One terajoule, which is equivalent of one million MJ, a unit of energy
TRANSMISSION	refers to the operation of equipment used to convey electricity through a transmission network. The ElectraNet SA network consists of about 5,600 km of mostly 132 kV and 275 kV lines
UAFG	Unaccounted for Gas
WATT	A derived SI (International System of units) unit of power, defined as one joule per second
Wh	One watt hour, a unit of energy

1. INTRODUCTION

The Essential Services Commission of South Australia (the Commission) is established under the Essential Services Commission Act 2002 as the independent economic regulator of essential services. The Commission's primary objective is to protect South Australian customers' long-term interests with respect to the price, quality and reliability of those services.

Businesses supplying or retailing electricity and gas in South Australia must be licensed by the Commission. These licensees must adhere to detailed requirements outlined in their licences, including compliance with various Codes.

A key means by which the Commission meets its primary objective of protecting South Australian customers' long-term interests is through the provision of information on the performance of regulated energy businesses in this State each year to the general public, the South Australian Government and the energy industry itself.

Providing customers, in particular, with this information is a crucial element underpinning the long-term success of both the competitive retail markets and the regulated monopoly energy networks in this State. With liberalised markets and privatised businesses, the absence of customer confidence in those markets and businesses would significantly impede their operation, and hence the delivery of economic benefits to South Australian customers.

As a result, since its establishment in 1999 (then known as the South Australian Independent Industry Regulator), the Commission has produced a series of Annual Performance Reports on the performance of regulated energy businesses. This report is the 12th in that series.

There is a marked change in the style and presentation of this year's Annual Performance Report, with a focus on improving customer accessibility to the Commission's assessment of gas and electricity supply industries' performance in financial year 2010/11.

Accompanying the release of this report are short 'report card' style papers that concentrate on specific aspects of energy market performance, covering:

- Competitive retail energy market;
- Customer hardship;
- Network – electricity; and
- Network – gas.

The intention of these 'report cards' is to enable interested parties to more easily locate performance results in areas of particular interest, without the need to read this report.

A copy of these Report Cards can be found at:
www.escosa.sa.gov.au - refer Market Information page

Detailed time series data is provided in a Statistical Appendix, which includes additional data to that reported in this report and the report cards, and is available at:
www.escosa.sa.gov.au - refer Market Information page

The Statistical Appendix, which now includes network performance data, is designed to assist researchers and other persons with an interest in examining specific results and trends.

2. RETAIL ENERGY MARKET

Facilitating the development of the competitive retail energy market is a key priority for the Commission. Since the introduction of electricity and gas Full Retail Competition in South Australia, the Commission has monitored the level and success of competition within the retail energy market with a view to ensuring that the long term interests of South Australian customers are protected.

Highlights 2010-11:

- Significant improvement in retailer telephone and written responsiveness
- Substantial increase in reported customer complaints, in part driven by improved retailer reporting systems, with the Commission initiating a review of this issue
- No change in the number of retailers serving small customers
- Significant increase in customer switching for electricity retail contracts from 14% (June 2010) to 19% (June 2011), having peaked at 21% during the year
- Customer switching for gas retail contracts increased from 12% (June 2010) to 14% (June 2011)
- Only small movements occurred in the market shares of retailers
- Discounts available for electricity market contracts against standing contract price range from 3% to 10%
- Discounts available for gas market contracts against standing contract price range from 2% to 7%
- The Commission's Price Comparison service, which assists customers to undertake independent comparisons of the electricity and gas market contracts currently being offered, remains popular with customers

2.1 Customer Service

As electricity and gas are essential services, it is appropriate for the Commission to require high levels of customer service from licensed retailers. Specific customer service standards are contained in the Commission's Energy Retail Code, which requires retailers to use best endeavours to achieve telephone responsiveness and written responsiveness requirements.

In addition, the Energy Retail Code mandates the implementation of Commission-approved customer enquiry and complaint handling processes by retailers.

Retailer telephone responsiveness

Overall, telephone responsiveness has improved significantly from 2009/10 (Table 2.1). This is a good outcome and ensures that customers have ready access to retailers to deal with issues or problems which arise.

Reasons offered by the retailers which failed to meet the target included unexpected increases in the number of calls received and/or significant call centre staff turnover exacerbated by call complexity (for example following problems with IT-based billing systems). Some retailers reported that they sought to actively address low response times through recruitment, but a lag is involved in recruiting and training new staff.

Table 2.1: Standard: 85% of telephone calls answered within 30 seconds - annual

RETAILER	PERFORMANCE 2010/11
AGL SA Aurora Energy Diamond Energy Powerdirect Red Energy Simply Energy	(achieved)
Lumo Energy Momentum Energy Origin Energy TRUenergy	(close - > 80%)
Country Energy (no longer with customers, the business having been sold to Origin Energy)	(failed - 78%)

Retailer written responsiveness

Written responsiveness performance was mixed compared with last year, with the standing contract retailers (AGL SA – electricity and Origin Energy – gas) the only retailers not achieving the standard (Table 2.2).

Origin Energy only achieved 88% and 85% in quarters two and three respectively. It advised that this was due to temporary changes to back office processes to facilitate the implementation of a new billing and customer service platform. Subsequently, it achieved 95% in quarter four.

AGL SA only achieved 88% and 73% in quarters one and two respectively. It advised that the drop in service performance was largely attributed to a jump in the level of written enquiries received in quarter two. This was in part driven by system changes from 1 July 2010, which included the capture of a new class of customer request (such as advice of change of address and name) within this metric. AGL SA advised at the time that it expected the performance drop to be only temporary; it subsequently achieved 97% and 96% for quarters three and four respectively.

While pleased with the overall performance improvement for these two metrics, the Commission remains concerned that there is not universal achievement amongst retailers of these standards, particularly given that they have been in operation for over 10 years (and are expected to be carried forward into the National Energy Customer Framework from 1 July 2012).

The Commission considers that it is time that offending retailers had appropriate contingency plans in place to deal with most overload situations and therefore achieve these annual standards.

Table 2.2: Standard: 95% of written enquiries to be answered within 5 business days - annual

RETAILER	PERFORMANCE 2010/11
Aurora Energy Country Energy Diamond Energy Lumo Energy Momentum Energy Powerdirect Red Energy Simply Energy TRUenergy	(achieved)
Origin Energy	(close - > 90%)
AGL SA	(failed - 89%)

Compliance action

In keeping with a risk-based approach to compliance, and based on 2009/10 performance assessments, during the year the Commission undertook a compliance audit in relation to Lumo Energy's compliance program and compliance with the telephone and written responsiveness metrics.

The audit showed the methods used by Lumo Energy to calculate its achievement against the telephone service standards were inconsistent with Energy Industry Guideline 2 and instructions provided by the Commission. Lumo Energy has accepted the majority of the audit findings and recommendations. The Commission continues to work with Lumo Energy to rectify these deficiencies.

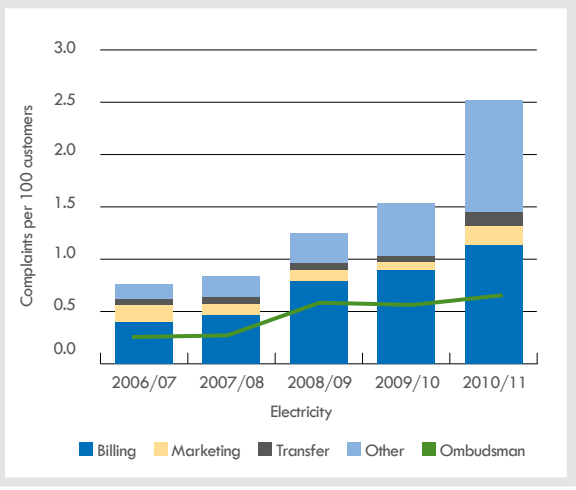
Customer complaints

Electricity

The Commission uses a combination of the number of complaints reported by retailers and the number of complaints handled by the Energy Industry Ombudsman as an indicator as to how well retailers are responding to customers' needs.

Complaints made to retailers rose again in 2010/11, continuing the trend observed by the Commission over the past five years. Of note, complaints per 100 customers rose across the industry from 1.5 to 2.5 per 100 customers (Figure 2.1). This is of concern to the Commission and it has commenced a review to understand the underlying drivers of that increase and to ensure that retailers' complaint handling processes are robust and properly implemented.

Figure 2.1: Electricity retailer complaints / 100 customers

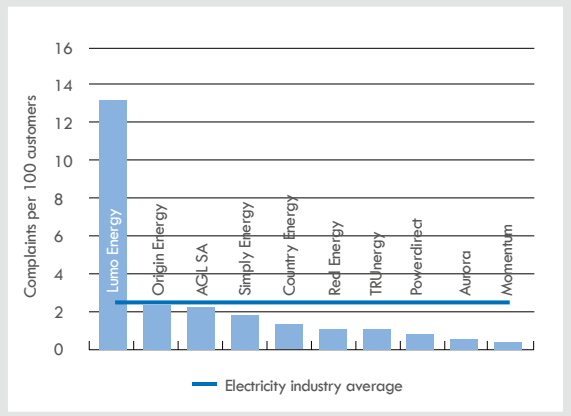


Reasons offered by some retailers for the substantial increase included:

- internal reviews and system enhancements undertaken to improve the accuracy of complaints recorded and reported;
- price increases, combined with other non-energy factors (e.g. higher interest rates) over the year led to a significant number of bill complaints;
- higher disconnection rates (residential electricity);
- a general increase in transfer activity, with one retailer expressing concern that some of these complaints were being generated by erroneous transfers initiated by other retailers, with their customers ringing them to complain; and
- a new category of solar complaints, which was previously negligible, reflecting the substantial uptake in residential solar panels, which in part explains the large increase in the 'other' category.

Lumo Energy's level of complaints far exceeded the industry average (Figure 2.2). Of the 8,352 increase in number of total complaints during 2010/11, Lumo Energy contributed 44% whilst only having 4% of the small electricity customers' market.

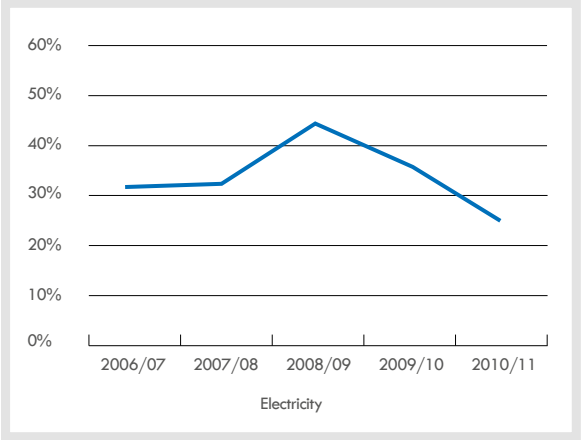
Figure 2.2: Electricity retailer complaints / 100 customers in 2010/11- by retailer



The increase in complaints made to retailers must also be considered in the light of the much lower (17%) increase in complaints to the Energy Industry Ombudsman during the year. This may indicate that retailers' initiatives in improved systems and reporting capabilities may have had a material impact on the headline numbers.

As shown in Figure 2.3, over the last two years there has been a decline in the ratio of complaints received by the Energy Industry Ombudsman as compared with complaints received by retailers. This decline appears to be consistent with a higher percentage of complaints being handled adequately by retailers' internal complaint handling procedures, rather than needing to be handled by the Ombudsman last resort mechanism.

Figure 2.3: Ombudsman complaints relative to complaints by electricity retailers



Gas

Figure 2.4 shows the recent trend of increasing gas related complaints, together with the type of complaint.

Figure 2.4: Gas retailer complaints / 100 customers

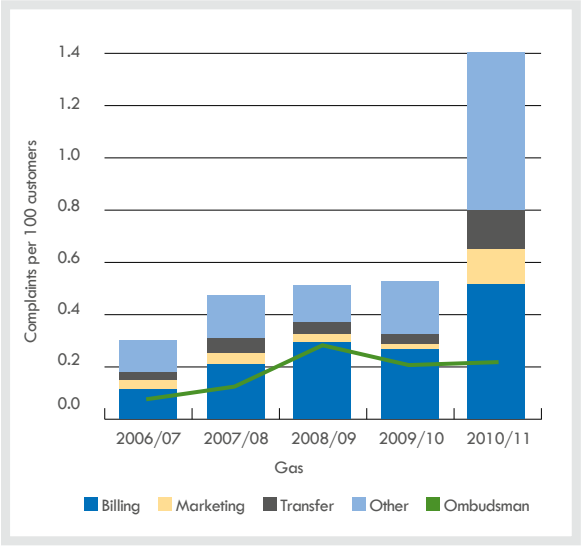


Figure 2.5: Gas retailer complaints / 100 customers in 2010/11 - by retailer

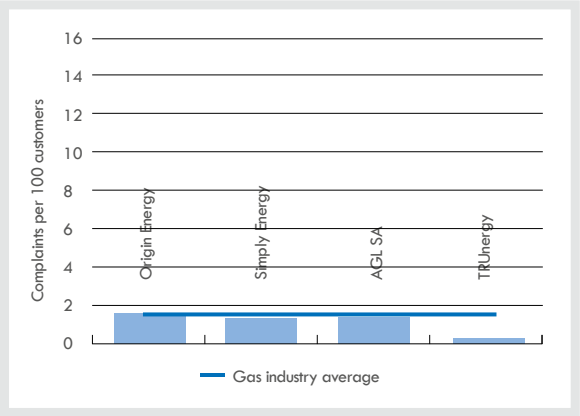
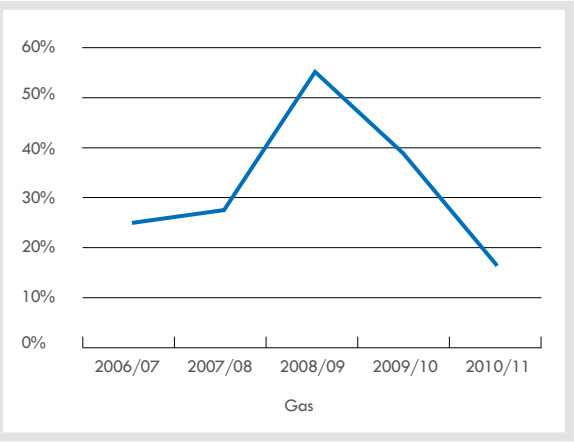


Figure 2.6: Ombudsman complaints relative to complaints received by gas retailers



Reasons offered by some retailers for the significant increase are provided above (i.e. see electricity section).

As discussed in the electricity section, to the extent that the increase in complaints is driven by system enhancements then the improvement in data quality is welcomed. However, it makes trend analysis difficult.

The total number of gas related retailer complaints was up 2.7 times on 2009/10 levels but, at 1.4 complaints per 100 customers, is still around half the level for electricity complaints. There was also an increase in complaints to the Energy Industry Ombudsman of 11%. However, once again, the smaller movement in complaints received by the Ombudsman suggests that a significant component of the reported increase in complaints to retailers was as a result of retailer initiative to improve the reporting capability of their systems.

As with electricity, there was a significant increase in the 'other' category of gas complaints and, to the extent it is possible for retailers to report, the Commission will explore further over the coming year the nature of this increase and the extent to which it raises issue of concern to the Commission.

All but TRUenergy (which had a relatively low rate of complaints) were around the industry average (Figure 2.5).

Figure 2.6 shows the trend over the last two years of a decline in the ratio of complaints received by the Energy Industry Ombudsman to the level of complaints received by retailers. This decline is consistent with a higher percentage of complaints being handled adequately by retailer internal complaint handling procedures, rather than needing to be handled by the Ombudsman last resort mechanism.

On balance, while there may be some difficulties in trend analysis arising from improved data quality and recording systems, and noting the overall improvements in "front-line" responsiveness, nevertheless the substantial increase in complaint levels in the retail energy market is of concern to the Commission.

Therefore, the Commission is reviewing retailer dispute and complaint procedures and liaising with the Energy Industry Ombudsman, to assess the adequacy of these procedures in applying the Energy Retail Code requirements and the degree to which they are implemented in practice. If found wanting, the Commission will address shortcomings directly with retailers.

General compliance

During 2010/11, the Commission had cause to deal with a number of general compliance matters which arose across a number of retailers. Those issues were dealt with by the Commission collaboratively with retailers and generally resolved to the Commission's satisfaction. Where compliance issues are not yet resolved, the Commission continues to monitor the resolution of the matters and will implement its Enforcement Policy where necessary.

Customer complaints to the Energy Industry Ombudsman Scheme have again played an integral role in identifying non-compliances and systemic issues. However, the Commission is also pleased to note the apparent increase in self-identification of issues by retailers, which indicates a level of effectiveness of their compliance frameworks.

Most issues arising related to non-compliances with the Energy Retail Code, Energy Marketing Code and the Energy Customer Transfer and Consent Code. Specific issues have been:

- Billing: including retailers' ability to generate bills, timeliness of bill provision and tariff misalignment issues; and
- Marketing practices: including door to door sales practices and the preparation and presentment of marketing materials.

In particular, the Commission remains concerned at the volume and duration of billing issues experienced by TRUenergy. It is closely monitoring TRUenergy's actions in this area and is looking for rapid resolution of outstanding matters.

2.2 Market Development

The impetus for the creation of a competitive energy market at both the wholesale and retail level is to protect the long term interests of customers through efficient and innovative prices and services. It is important, therefore, to monitor the extent to which a competitive energy market is being achieved.

Competition in the electricity and gas retail markets has been introduced in South Australia in a staged manner, beginning in late 1998 when large industrial and commercial customers were able to choose their retailers, to the introduction of full retail contestability in the small customer segment in electricity in January 2003 and gas in July 2004.

Monitoring competition

The Commission has a role in monitoring the level of competition in the retail energy market. Aside from its general role of monitoring the extent to which long term interests of customers are being protected, the state of the market has a bearing on its deliberations in determining standing contract prices.

The Commission monitors competition in the retail energy market through seven indicators encompassing both retailer-related and customer-related developments:

- Indicator 1 – Number of Retailers;
- Indicator 2 – Customer Switching;
- Indicator 3 – Barriers to Entry;
- Indicator 4 – Information Asymmetries
- Indicator 5 – Price/Service Mix;
- Indicator 6 – Impacts on Low-Income Groups; and
- Indicator 7 – Innovation.

Table 2.3: Number of licensed retailers

	2008/09	2009/10	2010/11
Licensed Electricity Retailers (as at 30 June)	19	21	21
Retailing to Small Customers	11	10	10
Licensed Gas Retailers (as at 30 June)	11	10	10
Retailing to Small Customers	4	4	4

Ten licensed electricity retailers sold to South Australian small customers during 2010/11. Four of these continue to sell gas to small customers, which represents no change on 2009/10 (Table 2.3).

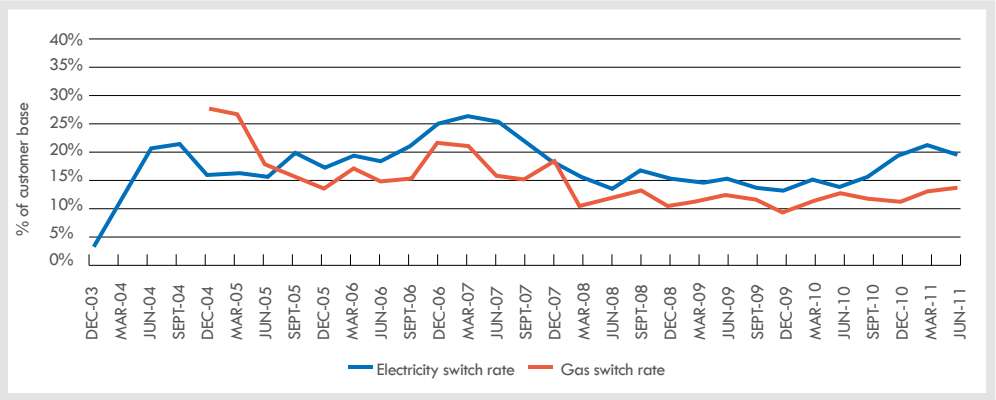
Country Energy's retail business transferred to Origin Energy from March 2011 and it is understood that another retailer is looking to exit the South Australian market. Offsetting this, Diamond Energy became active towards the end of the financial year and the Commission understands that at least one other new retailer is preparing to actively enter the market in 2011/12.

The history of entry and exit of retailers licensed to operate in the South Australian energy supply industry is available on the Commission website - refer Licensing page.

The extent to which customers are exercising choice by switching between retailers provides some insight into the degree of customer awareness of choice and the competitive effectiveness of retailer activity.

The Commission notes that the level of competitive behaviours in the South Australian gas retail market continues to remain relatively less intense than has been the case in the past (particularly prior to 2007). However, there was a marked increase in the level of customer switching in the residential electricity retail market during the past year, with the annualised rate peaking at 21% during the year, at levels not seen since September 2007 (Figure 2.7).

Figure 2.7: Small customer market switching rates (annualised from quarterly data)



The level of market concentration of the top four electricity retailers, an indicator of market dominance and potential barrier to entry, remains high in the residential market at 94% (including Powerdirect as a wholly owned subsidiary of AGL Energy), the same as last year (Figure 2.8). Of this group of retailers, only Origin Energy grew its share (by 2%) of the residential electricity retail market during the year. These four are the only retailers operating in the small customer gas retail market and each has electricity generation plant as part of its asset portfolio. Of the four gas retailers, only AGL SA grew its share (by 2%) of the overall residential gas retail market during the year (Figure 2.9).

The Commission notes that:

- 75% of residential electricity customers have elected to enter into market contracts, up from 73% (2009/10); while this proportion is high, the rate of change has slowed markedly in recent years; and
- 75% of residential gas customers have elected to enter into market contracts, up from 72% (2009/10) and 67% a year earlier (2008/09) (Figure 2.9); while this proportion is high, there was not the increased level of customer switching activity in gas during 2010/11 that was seen for electricity.

The level of market concentration of the top four electricity retailers also remains high in the small business market at 97% (including Powerdirect as a wholly owned subsidiary of AGL), a 1% decline from last year (Figure 2.10). The combined AGL entities' market share remained at 73%, while the standing contract share dropped 3% to 39%. AGL (including Powerdirect) and Origin Energy, the two pre-competition entities, make up 85% of this market segment.

As for residential, only the top four electricity retailers operate in the small business gas market segment. There was however, a significant movement from standing contracts to market contracts, with an 8% reduction in the number of small business gas customers on standing contracts - Origin Energy and AGL SA the main beneficiaries with market contract shares increasing to 15% and 12% respectively (Figure 2.11). AGL SA and Origin Energy make up 88% of this market segment.

The annual bill for a typical residential customer on the electricity standing contract increased by 12% in 2010/11, in nominal terms (i.e. not adjusting for inflation). This resulted from two separate price changes:

- the electricity standing contract price was adjusted on 1 August 2010, in accordance with the Commission's three-year standing contract price determination that commenced on 1 January 2008. The price adjustment reflected an increase in network prices, regulated by the AER, and included cost impacts associated with the Residential Energy Efficiency Scheme and the Commonwealth Government's Expanded Renewable Energy Target; and
- a new three and a half year standing contract price determination was made by the Commission in late 2010, which led to a further change in the electricity standing contract price on 1 January 2011. The price change was influenced primarily by the 25% increase in wholesale electricity costs since the Commission's previous three-year price determination.

The level of discounting of market offers against the standing contract price increased during 2010/11. The maximum saving on the residential electricity standing contract price through entering a market contract was 14% (representing a saving of about $240 per annum for an average electricity residential customer), although market contracts were more typically providing savings between 3% and 10%.

Figure 2.8: Market share – residential electricity

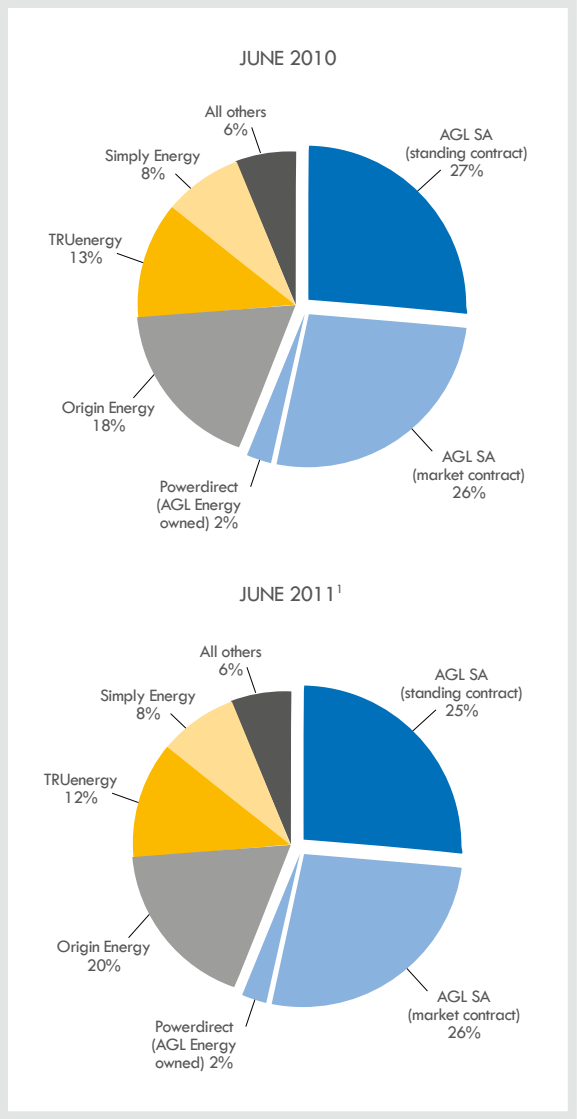
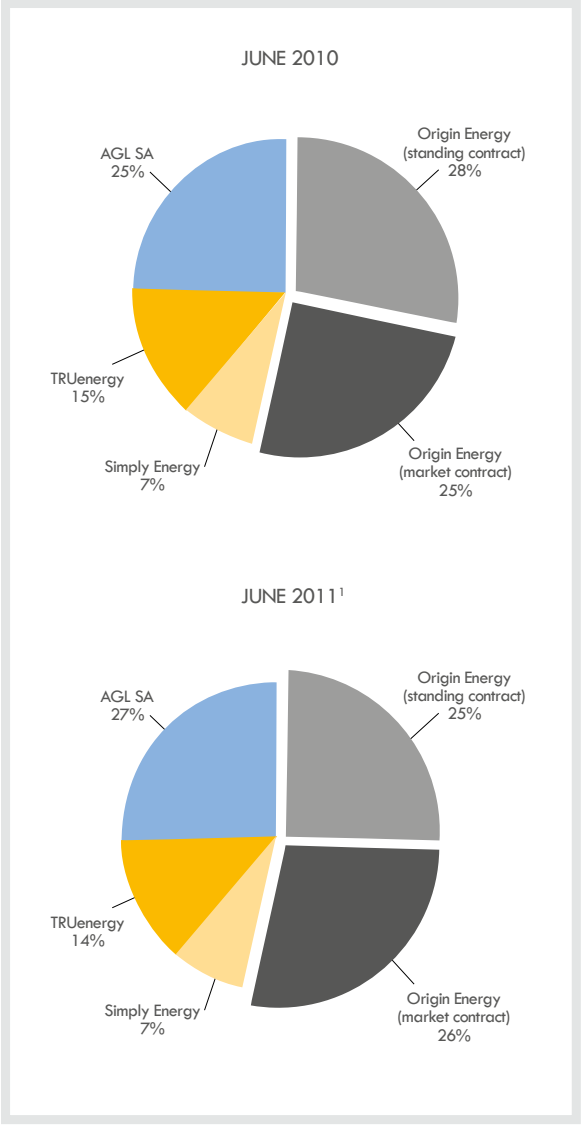


Figure 2.9: Market share – residential gas



1 figures may not sum to 100% due to rounding.

The annual bill for a typical residential customer on the gas standing contract increased by 3% in 2010/11. The gas standing contract price was adjusted on 1 July 2010, with that price applying until 1 August 2011, when a new three-year price determination was made by the Commission.

Latest market offers indicate that average annual savings of $17 (2%) to $57 (7%) are available for an average gas residential customer.

For both electricity and gas, however, contracts with a "green" component typically had a lower or no discount against the regulated standing contract prices. In most cases, such contracts were in fact priced higher.

It should be noted that the best offer may be to renew the customer's current contract, i.e. savings may not always be achieved through switching retailers.

Enhancing choice and participation

In an effectively competitive market, customers are not only aware of their ability to choose their electricity and/or gas retailers but also have the confidence to compare competing offers in a meaningful way. The ability for customers to compare offers becomes increasingly difficult as the number of available options increases, as has been seen during 2010/11, with South Australian households having nearly 120 different energy contracts to consider.

During 2010, the Commission surveyed customers to establish how useful the currently available energy pricing information was and whether there was anything else that would assist them to make an informed decision about electricity and gas contracts.

Based on survey findings, the Commission introduced new energy price disclosure requirements to ensure that customers have access to easily comparable market contract information; whether they seek it out for themselves on a retailer's website or are approached by a retailer or a retailer's representative on the telephone or in person. This will allow customers to consider

the offer being made to them in a less high-pressure environment.

The Commission's Price Comparison service assists customers to undertake an independent comparison of the electricity and gas market contracts currently being offered by retailers by calculating the savings (compared with the Standing Contract) available to customers based on their own particular energy consumption in the preceding year (available at www.escosa.sa.gov.au).

The online Estimator service remained popular and was accessed 9,606 times in 2010/11. To ensure that customers were not disadvantaged by a lack of Internet access or skills, the Commission also conducted 214 telephone-based price comparisons during 2010/11 (telephone 1800 226 100), which was an increase from the 159 Price Comparisons provided in 2009/10.

While it is difficult to judge the success of the enhanced price disclosure requirements in assisting customers, the Commission has noticed increased retailer rivalry during the latter half of 2010/11, with retailers informing the Commission on several occasions that their competitors had not provided updated information for the Estimator service.

However, despite the growing number of energy contracts available, there is little evidence of significant innovation emerging in the energy retail market. While a number of brokers are offering services, customers do not appear to be using brokers anywhere near the extent to which brokers are used in areas such as home and car insurance. To the extent that this demonstrates energy customers' confidence to negotiate on their own behalf, this may be a good outcome.

Aside from examples such as GreenPower, the general nature of retail offers and the types of billing arrangements are similar in nature to that introduced at the commencement of Full Retail Contestability (January 2003 for electricity), with innovations such as dual fuel (as opposed to separate electricity and gas billing from the one retailer), capped plans and other forms of billing arrangements yet to emerge to any significant degree.

Figure 2.10: Market share - small business electricity

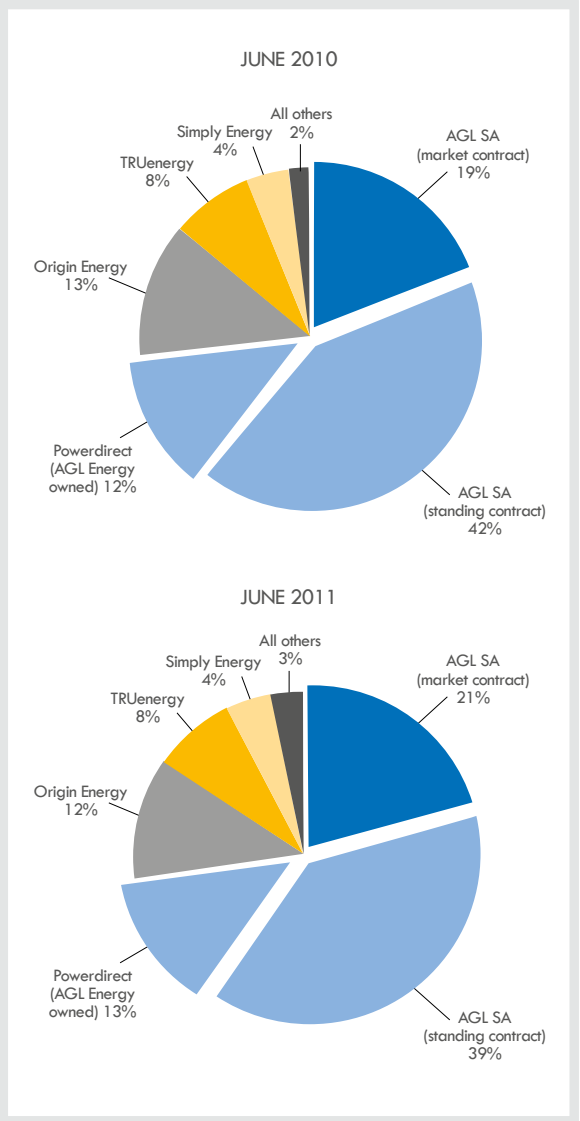
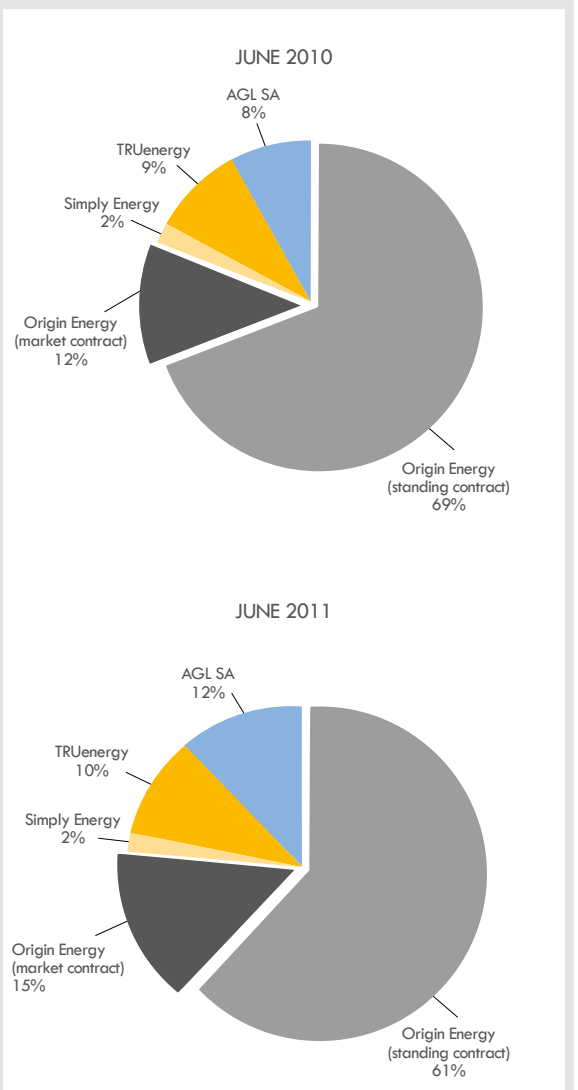


Figure 2.11: Market share - small business gas



3. CUSTOMERS EXPERIENCING FINANCIAL STRESS IN THE ENERGY MARKET

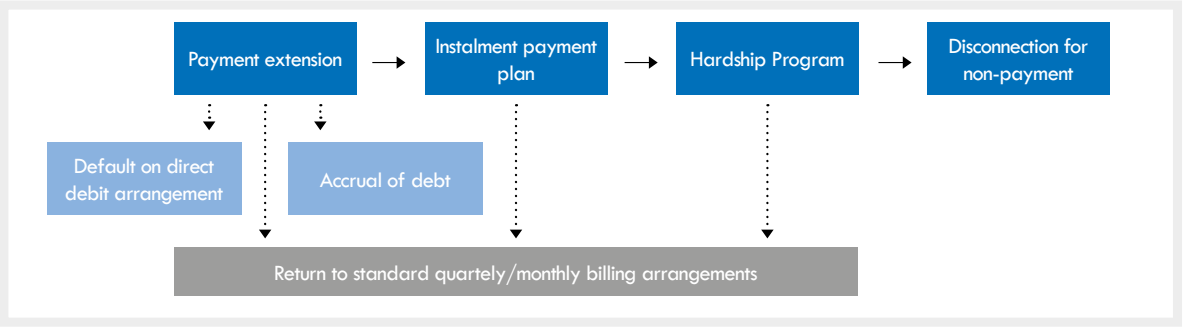
The Commission places significant emphasis on monitoring the level of customer accessibility to electricity and gas services, as measured in part by customers' ability to pay their bills.

The Commission's energy customer protection framework is based on the principle that customers should only have their energy services disconnected solely due to an inability to pay as a last resort (Figure 3.1). South Australian energy customers have a range of options available when they experience financial stress that affects their ability to pay their energy bills.

Highlights 2010-11:

- A substantial increase in residential electricity disconnections from the previous year (the lowest disconnection levels since FRC), but equal to the post-FRC average level of 7,300 disconnections, representing only one customer out of every 100 South Australian residential customers
- Disconnections for residential gas and small business (electricity and gas) declined from the previous year
- Less than one out of every 200 South Australian residential customers were participating in a retailer's Hardship Program
- Indications are that most retailers are making good efforts at assisting customers in financial stress, but the Commission will continue to closely monitor retailer performance in this area

Figure 3.1: Financial assistance framework in the South Australian energy market



ENERGY RETAILER HARDSHIP PROGRAM

While the Commission does not currently prescribe the form of a retailer's Hardship Program, or formally approve a retailer's Hardship Program, (as is the case in some other jurisdictions and under the National Energy Customer Framework (NECF)), the customer protections contained in the Energy Retail Code provide the key elements of a Hardship Program.

A number of steps need to be taken by retailers before a customer unable to pay their bill can be disconnected, including offering instalment payment plans, with disconnection a last resort.

If a residential customer requests an instalment payment plan, a retailer must take into account the customer's usage needs and capacity to pay in establishing the payment amounts. Once established, a retailer must monitor the customer's compliance with the instalment payment plan to identify if the customer may require further assistance with paying energy bills. This assistance can come in various forms, such as:

- information about, and referral to, State Government assistance programs (such as the Residential Energy Efficiency Scheme, the Energy Concession and the Emergency Electricity Payment Scheme); or
- assessment of eligibility for participation in the retailer's Hardship Program.

However, if the customer has had two or more previous instalment payment plans cancelled within the last 12 months due to non-payment, retailers are not required to offer the customer another instalment payment plan unless they are satisfied that the customer will comply with the new arrangements.

In addition to encouraging customers experiencing financial stress to contact their retailer directly, the Commission requires retailers to have in place credit management systems and processes sufficient to allow them to identify customers that may be experiencing payment difficulties (e.g. missed payments in a payment plan, large debt accruing, infrequent, short or irregular payments, or defaulting on direct debit arrangements).

The relationship between retailers and financial counsellors is also extremely important. Financial counsellors play an important role in identifying and referring customers experiencing broader financial stress to retailers' financial assistance (or "Hardship") programs. Similarly, through their direct interactions with customers demonstrating financial hardship, retailers can refer customers to financial counsellors to allow them to seek further assistance in managing their financial situation more broadly.

Retailers have considerable flexibility in developing their Hardship Programs to best meet the needs of their customers. However, Hardship Programs generally have the following basic elements in common:

- a specialised team within the retailer to support participating customers;
- a clearly defined entry and exit point for the program;
- protection from credit collection action and disconnection;
- flexible payment arrangements that have regard to the customer's usage, capacity to pay and current financial situation; and
- provision of additional support to customers through referral to third party support agencies, applicable Commonwealth and State government concessions and access to energy efficiency advice.

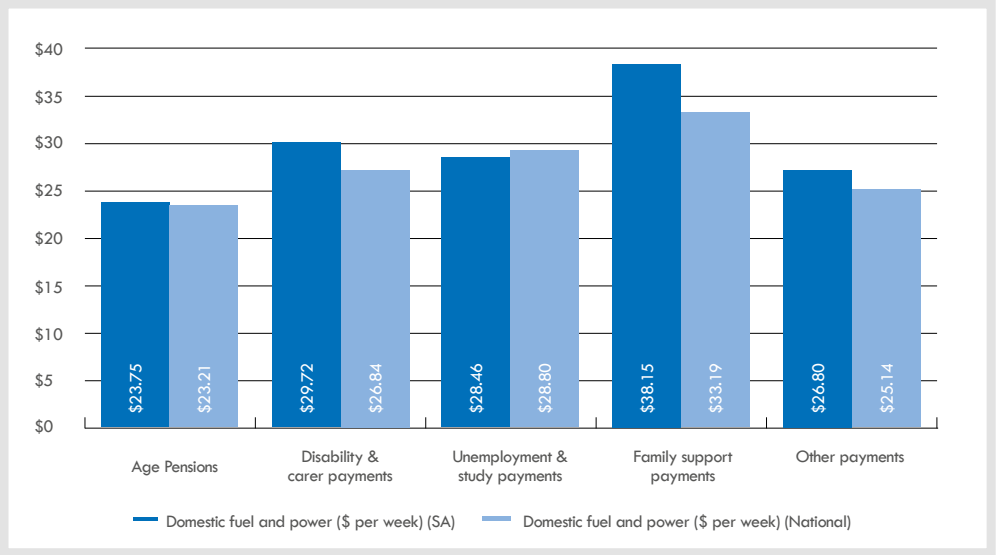
The financial circumstances of Hardship Program customers will be greatly varied. While the financial stress affecting a residential customer's ability to pay its energy bills can be as a result of a temporary (although unexpected) change in financial circumstances, the financial situation for some customers means they may be unable to pay for their energy usage on an ongoing basis. Some Hardship Program customers will be able to afford their ongoing energy usage, but may have difficulty addressing debt that has accrued for past usage. Other Hardship Program customers may need specific sustained solutions to manage their energy bills on an ongoing basis, including the need to reduce their consumption to a point that meets their capacity to pay. While retailers can work with customers to identify potential energy savings—and in some circumstances provide free or subsidised energy efficient appliances—in other circumstances, the management of a customer's future energy usage can be difficult as it may ultimately require ongoing behavioural change from customers.

3.1 Instalment Plans and Flexible Payment Arrangements

Energy bills generally represent a small proportion of a typical Australian household's overall annual budget (around 3% of overall expenditure on average and around 4% for those Australian households whose main source of income is government pensions and allowances). The Commission notes that while the contribution of energy bills for a typical household is modest, this is not necessarily the case for all households, particularly low income households. The Commission will continue to monitor relevant statistics in this area (Figures 3.2 and 3.3).

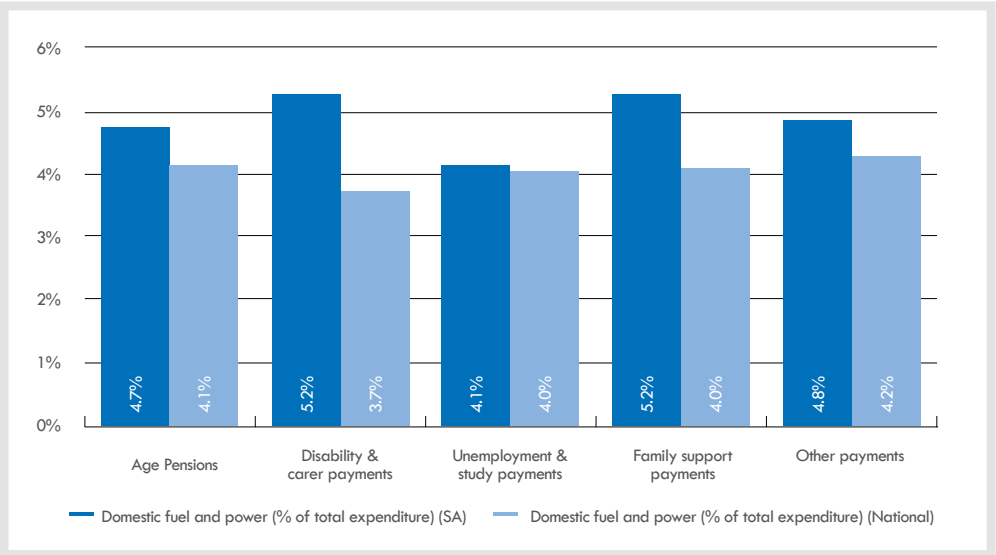
While the contribution of energy bills to the overall household budget for a typical household is modest, the requirement to pay energy bills on a quarterly basis can make it difficult for even some typical households to find the entire amount due within the normal two week payment cycle. Households may experience short-term cash flow issues if other bills are due around the same time. If so, retailers will generally grant customers a payment extension, upon request.

Figure 3.2: 2009-10 Average weekly expenditure on domestic fuel and power, SA vs. National Average



Source: ABS Cat. No. 6530.0

Figure 3.3: 2009-10 percentage of overall household budget spent on domestic fuel and power, SA vs. National Average



Source: ABS Cat. No. 6530.0

3.2 Disconnection of Energy Supply for Non-payment of Bills

Ultimately, if a customer fails to pay energy bills, a retailer can arrange to have supply disconnected. There are, however, a number of safeguards in place to attempt to distinguish the "won't-payers" from the "can't-payers". Before a retailer can disconnect a residential customer, it must have provided that customer with all reasonable opportunities to pay their energy bills, including:

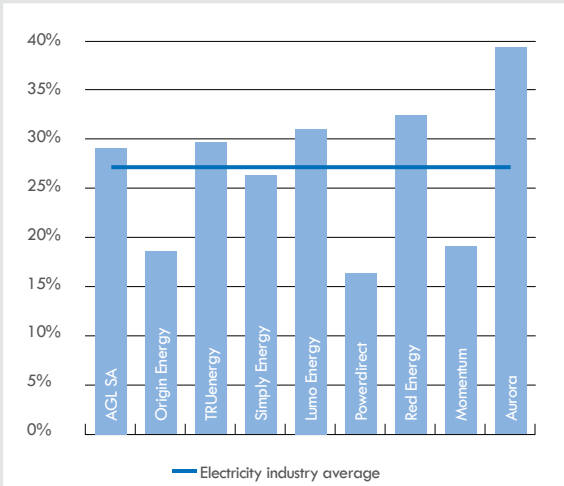
- offered alternative payment options;
- provided information about, and, if relevant, referral to, Government-funded concessions and assistance programs;
- sent a reminder notice with an extended payment period and after the expiry of this period, sent the customer a written disconnection warning notice;
- used its best endeavours to contact the residential customer personally either by telephone, mail or visiting the property; and
- advised the residential customer about the existence and operation of the Energy Industry Ombudsman scheme.

The Commission recognises that most customers will aim to have their supply reconnected as soon as possible, and so there are processes in place to ensure that customers are reconnected quickly—once the relevant payments have been made to the retailer. The Commission monitors the number of disconnected customers that are reconnected (in the same name at the same supply address) as this can provide an indication of the number of customers who perhaps could have been identified for further assistance by the retailer. Conversely, it could also indicate that such customers did not need hardship assistance in the first place.

3.3 Energy Concession Recipients

Receipt of the South Australian Government Energy Concession alone it is not necessarily an indication that someone is experiencing financial stress, as eligibility for the South Australian Government's Energy Concession is quite broad. Approximately 27% of all South Australian residential customers were in receipt of the Energy Concession in 2010/11 (Figure 3.4). While the majority of customers will be aware of their eligibility for the Energy Concession, the Commission does expect retailers to check customer eligibility if a customer demonstrates signs of being in financial difficulty.

Figure 3.4: Percentage of South Australian residential customers in receipt of the South Australian electricity concession in 2010/11



3.4 Residential Hardship Indicators in 2010/11

The Commission considers it important to monitor changes in the numbers of disconnections and instalment payment plans together, as an increase in the number of instalment payment plans offered to customers may simply represent greater flexibility on the part of retailers to assist customers to manage energy bills and avoid disconnection for non-payment. In 2010/11, the ratio of residential customers with instalment payment plan arrangements in place to customers disconnected for non-payment was 3:1 in the electricity market (Figure 3.5) and 4:1 in the gas market (Figure 3.9).

Around 3 out of every 100 South Australian residential customers had an instalment payment plan with their retailer as at the end of 2010/11 (Figure 3.7 and Figure 3.11). While the total number of residential customers on an instalment payment plan was relatively low overall, retailers appear to be readily agreeing to instalment payment plans. Only one customer out of every 100 South Australian residential electricity customers were disconnected for non-payment of their electricity bills during 2010/11 (Figure 3.8). In the gas market, the number of residential customers disconnected for non-payment was less than one in 100 (0.7) (Figure 3.12).

Of the total number of residential customers that experienced a disconnection for non-payment, just under half (43%) had their electricity reconnected in the same name at the same address within seven days (Figure 3.6) and just over half (54%) had their gas reconnected in the same timeframe (Figure 3.10). While the majority of residential customers were able to have their supply reconnected quickly, the high reconnection rate may indicate that at least some of these customers could have been better targeted for additional assistance that would have avoided the disconnection occurring at all.

The number of residential electricity disconnections increased by 54% in 2010/11, but at 7,311 is equal to the annual average level of disconnections of 7,303 in the period following the commencement of competition (i.e. post-Full Retail Competition (FRC)). The level of residential electricity disconnections in 2009/10 (4,748) was the lowest reported in recent times.

Reasons offered by retailers for the increase in residential electricity disconnections in 2010/11 included:

- system enhancements: improved IT systems enabling better assessment of the level of individual customer accumulated debt (rather than disconnection being triggered by an individual bill exceeding a determined amount); and
- revised credit management practices: greater attention paid to the level of unpaid bills.

Disconnections for residential gas and small business (electricity and gas) declined from the previous year.

Figure 3.5: Ratio of residential electricity customers on instalment payment plans to number of customers disconnected for non-payment in 2010/11

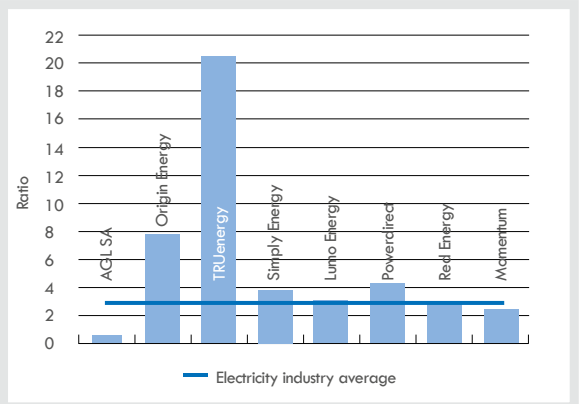


Figure 3.6: Percentage of residential electricity customers reconnected at the same address in the same name within 7 days after being disconnected for non-payment in 2010/11

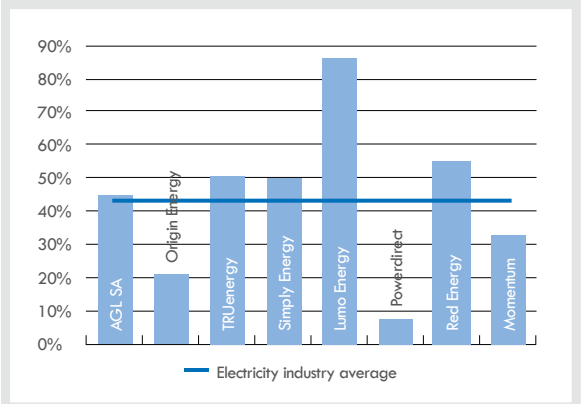


Figure 3.7: Number of residential electricity customers on instalment payment plans in 2010/11

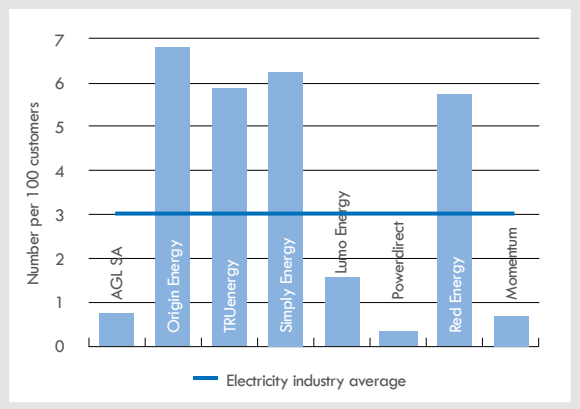


Figure 3.8: Number of residential electricity customers disconnected for non-payment in 2010/11

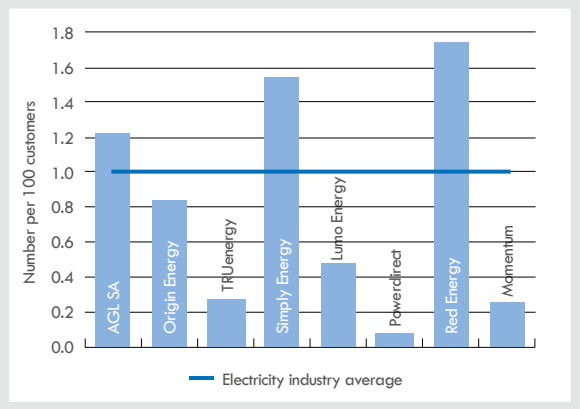


Figure 3.9: Ratio of residential gas customers on instalment payment plans to number of customers disconnected for non-payment in 2010/11

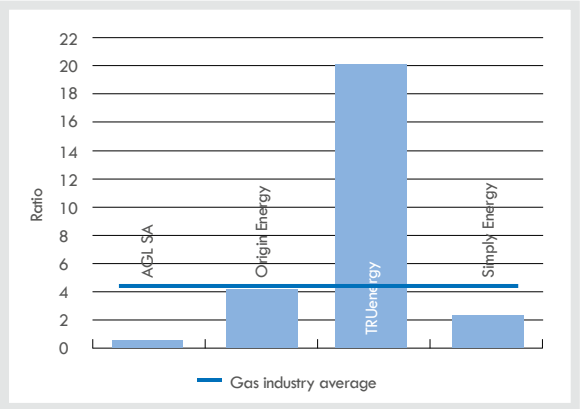


Figure 3.10: Percentage of residential gas customers reconnected at the same address in the same name within 7 days after being disconnected for non-payment in 2010/11

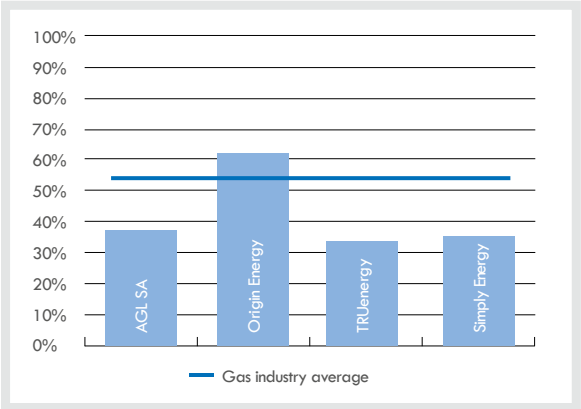


Figure 3.11: Number of residential gas customers on instalment payment plans in 2010/11

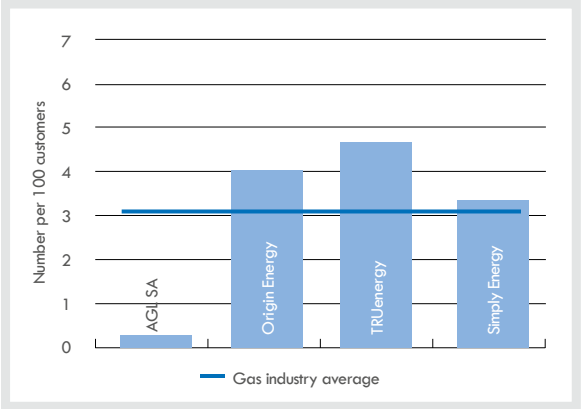
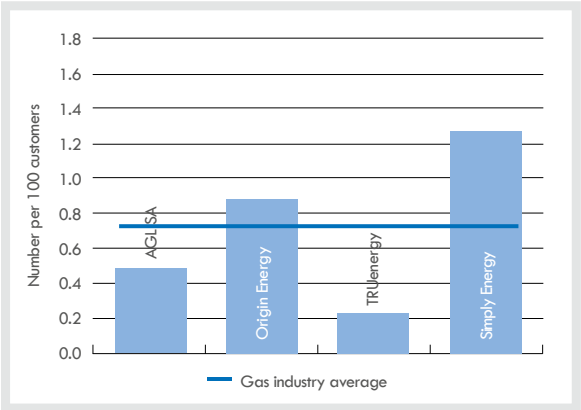


Figure 3.12: Number of residential gas customers disconnected for non-payment in 2010/11



3.5 Retailer Annual Hardship Statement

The Commission had proposed to introduce a series of new hardship indicators as part of its 2010 review of Energy Industry Guideline No.2. The Commission, however, was mindful of the imminent adoption of the National Energy Customer Framework (NECF) arrangements. NECF will involve the transfer of state-based energy-specific customer protection measures (excluding retail price regulation) to the Australian Energy Regulator (AER). When the Commission published its revised Guideline 2, the AER was still in the process of finalising its reporting requirements, including hardship metrics, to apply once the NECF has been adopted in South Australia.

While the Commission recognises the uncertainties retailers are facing with the transition to the NECF, it remains important to monitor the extent to which South Australian residential customers experiencing financial stress are being provided with access to appropriate protections during that transition. Consequently, the Commission introduced an annual hardship program reporting requirement for energy retailers consisting of:

- a narrative report of the mode of operation of their existing hardship programs in meeting the requirements of the customer protection measures provided by the Commission's Energy Retail Code; and
- the provision of a small number of hardship indicators showing annual outcomes, that the Commission considered retailers would already be collecting.

Table 3.1: Annual hardship reporting statement checklist 2011

	INFORMATION PROVIDED (YES/NO) BY RETAILER							
	AGL SA (INCLUDING POWER-DIRECT)	ORIGIN ENERGY	COUNTRY ENERGY[1]	TRUENERGY	SIMPLY ENERGY	LUMO ENERGY	MOMENTUM	RED ENERGY
The manner in which residential customers are identified as being in financial difficulty through the retailer's credit management processes	Yes	Yes	Yes	Yes	Yes	Yes	Some	Yes
The way in which customers are informed/ made aware of their ability to request access to a retailer's hardship program	Yes	Yes	Yes	Yes	Yes	Yes	Some	Yes
The information provided to customers once they have been identified as eligible to enter the retailer's hardship program	Yes	Yes	Yes	Yes	Yes	Yes	Some	Yes
The method for calculating a customer's capacity to pay, including the method: • for calculating the amount of the instalments to be paid by the customer; • for determining how any arrears are to be paid; and • for calculating a customer's future energy usage	Yes	Yes	Some	Yes	Yes	Yes	Some	Yes
Details of any assistance provided by retailers to help customers manage their future energy use	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
How the retailer monitors the customer's compliance with the payment plan and how payment difficulties the customer may face while on the plan are dealt with	Yes	Yes	Yes	Yes	Yes	Yes	No	Some
	Yes	No	Some					

1 On 1 March 2011 the Country Energy retail business transferred to Origin Energy.

Most retailers were able to report in detail on the nature of their Hardship Programs, with only Momentum Energy advising that it could not provide detail as it had no hardship customers. While greatly varied, (with the exception of Momentum Energy) all retailers appear to have designed Hardship Programs that aim to provide tailored, flexible arrangements for residential customers experiencing either short or longer-term financial stress (Table 3.1).

Retailers appear to be taking reasonable steps to assess customers' capacity to pay, including periodic reviews of payment amounts to recognise that capacity to pay can vary over time. All retailers' Hardship Programs allow customers multiple attempts to manage their energy debts, provided they continue to communicate their changing circumstances with retailers. In some cases, the broader educative benefits provided by active participation in a Hardship Program appear to extend beyond just energy efficiency advice to attempts to increase customers' general financial literacy.

The proportion of South Australian residential customers presenting an indication of severe financial stress affecting their ability to pay their energy bills was relatively low in 2010/11. While just over a quarter of all South Australian residential electricity customers were in receipt of the Energy Concession, only 0.5% of all residential electricity customers were participating in retailers' Hardship Programs in 2010/11 (Figure 3.13). Both Energy Concession recipients (Figure 3.4) and Hardship Program customers were spread relatively evenly amongst retailers (Figure 3.15 and Figure 3.16).

Figure 3.13: Number of residential electricity customers experiencing financial stress in 2010/11

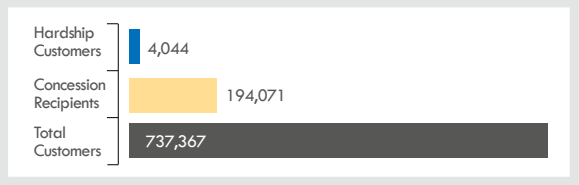


Figure 3.14: Number of residential gas customers experiencing financial stress in 2010/11

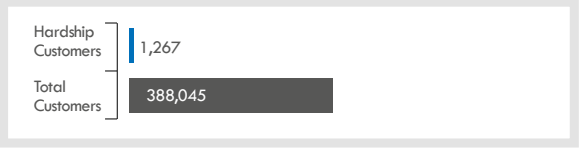


Figure 3.15: Percentage of residential electricity customers participating in a Hardship Program in 2010/11

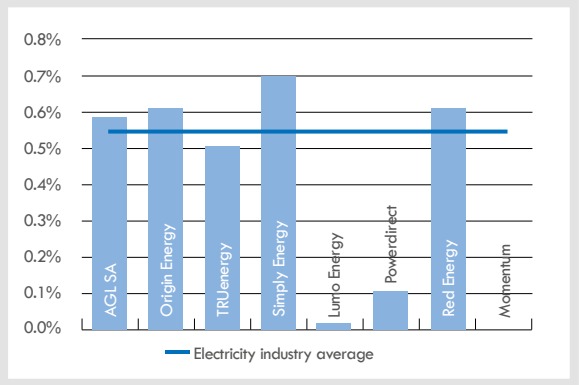
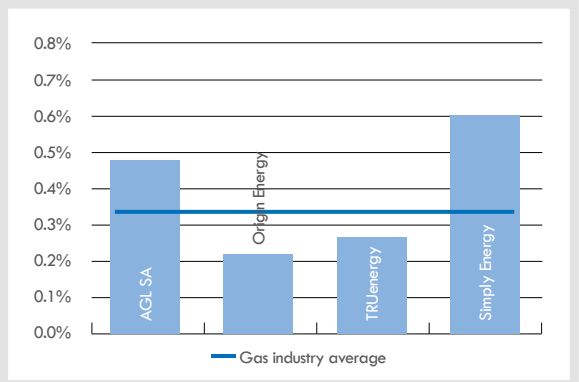


Figure 3.16: Percentage of residential gas customers participating in a Hardship Program in 2010/11



Extended periods of participation in a retailer's Hardship Program is not necessarily an indication that assistance has been ineffectual. Rather, it may demonstrate retailers' ongoing willingness and flexibility to assist customers. In some circumstances, it may be difficult to reduce energy consumption to be within a customer's capacity to pay—be that as a result of lack of income or health and wellbeing issues that require higher energy consumption than can be afforded.

The metrics reported above are only indicators that customers may be experiencing financial stress or hardship that affects their ability to pay their energy bills. The Commission recognises that the number of customers experiencing financial stress is largely driven by wider economic factors beyond the direct control of retailers. It is not the responsibility or within the means of retailers alone to address the underlying broader financial circumstances of customers experiencing protracted hardship. Customers have competing financial pressures that may affect their ability to prioritise payment of their energy bills from time to time.

The Commission is generally pleased with the ability and willingness of retailers to offer payment flexibility to avoid disconnections as a result of an inability to pay during 2010/11. The Commission will continue to closely monitor retailers' indicators of customer financial stress in the energy market in 2011/12 to ensure that retailers continue to assist those experiencing financial stress.

3.6 Prepayment Meters

During early 2006, prepayment meters began to be offered in South Australia, in accordance with the Commission's Prepayment Meter System Code. Prepayment meters allow for the prepayment of electricity or gas through mechanisms such as tokens, electronic tickets, smart cards or keypads. Customers purchase credit and then use electricity or gas until their credit expires. Customers can purchase more credit at any time.

By nature, prepayment meters involve different issues to standard meters and so warrant a separate section for this Annual Performance Report, but it does not follow from this that the Commission has had concerns with the operation of prepayment meters to date. For example, under the Prepayment Meter System Code, customers have access to an emergency credit facility. Retailers do not disconnect customers who are unable to pay; rather, the customer has the ability to self-disconnect. Accordingly, the Commission has established separate indicators to cover the performance of retailers in this area.

At 0.4% of South Australian electricity households, electricity prepayment meters represent a small niche market.

The 2010/11 level of prepayment self-disconnections for longer than 240 minutes (3.7 per 100 customers) is higher than has occurred in recent years, but still lower than that recorded in the early years of the prepayment meter market (Figure 3.18).

Figure 3.17: Hardship customers successfully exiting Hardship Program in 2010/11 (electricity & gas combined)

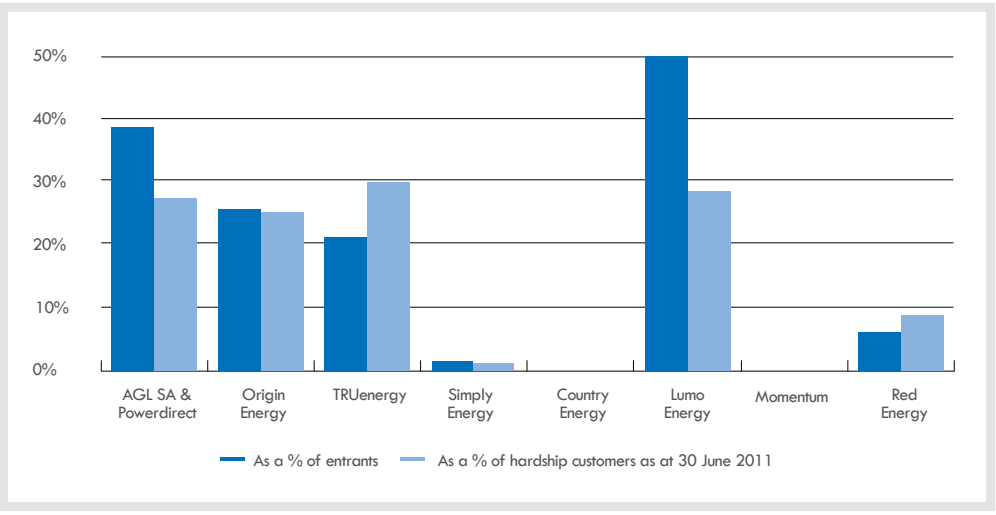
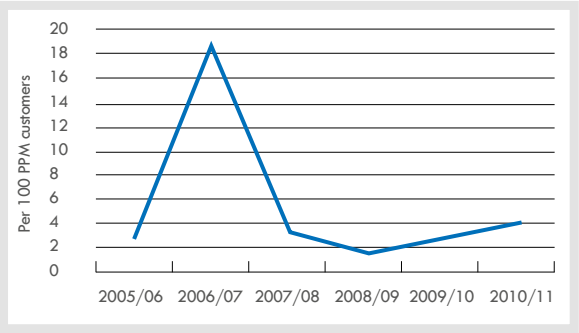


Figure 3.18: Total number of self-disconnections from a Prepayment Meter System



The extent to which the self-disconnections are occurring due to an inability to pay as opposed to 'voluntarily' (e.g. away on holiday or finance not an issue with the disconnection resulting from a failure to keep close enough attention to the level of remaining credit) is not known. The measure of "Number of small customers self-disconnected three or more times in any three month period for longer than 240 minutes on each occasion" might be expected to provide a clearer indication of potential hardship. The number of occurrences for this later measure has remained low (annually has not exceeded eight customers) since the introduction of prepayment meters in South Australia.

3.7 Small Business Financial Stress Indicators

Compared with residential electricity customers, retailers are offering far fewer instalment plans on average to small business electricity customers (0.3 in 100) (Figure 3.21) compared with residential 3 in 100 (Figure 3.7)). This reflects the Energy Retail Code having stronger protections for residential customers, with the Code requiring the offering of such plans to residential customers where financial disadvantage is identified. This is in turn consistent with the emphasis of providing 'hardship' protections to residential customers to ensure their access to an essential service for health and quality of life reasons, rather than to small business where energy is one component of many inputs to doing business. Only 0.7 customers out of every 100 small business electricity customers were disconnected for non-payment of their electricity bills during 2010/11 (Figure 3.22), the lowest rate since full retail contestability commenced (January 2003).

Retailers on average are offering around half the level of instalment payment plans to small business gas customers, compared with electricity, and this reflects the incumbent retailer (Origin Energy) not offering any plans. A higher proportion of small business gas customers are reconnected following disconnection than for electricity, with TRUenergy and Simply Energy reporting zero reconnections, reflecting the very small number of disconnections instituted by these retailers. Only 0.9 customers out of every 100 small business gas customers were disconnected for non-payment of their electricity bills during 2010/11 (Figure 3.26), the lowest rate since 2006/07.

Figure 3.19: Ratio of small business electricity customers on instalment payment plans to number disconnected for non-payment in 2010/11

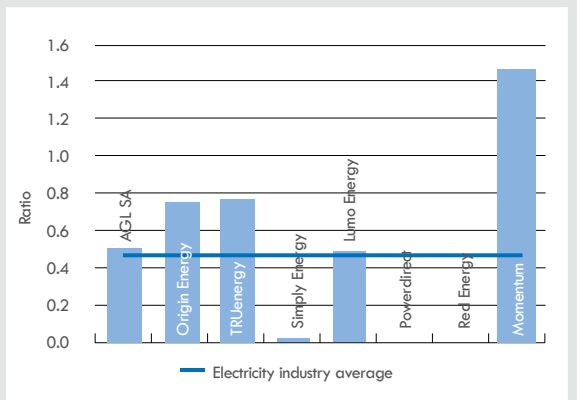


Figure 3.20: Percentage of small business electricity customers reconnected after being disconnected for non-payment in 2010/11

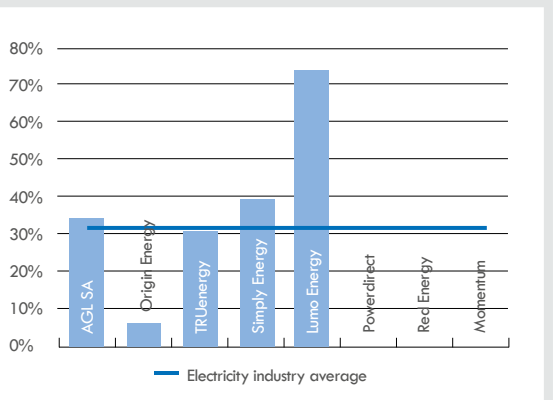


Figure 3.21: Number of small business electricity customers with instalment payment plans in 2010/11

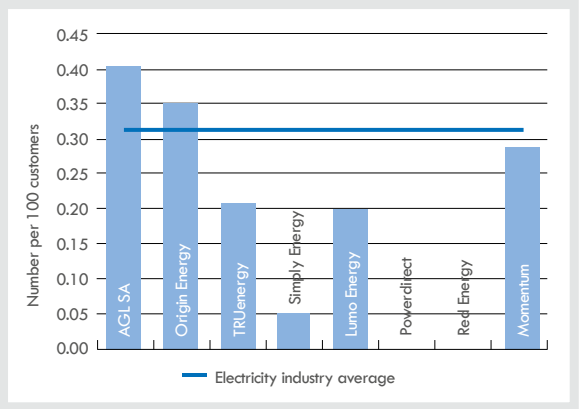


Figure 3.22: Number of small business electricity customers disconnected for non-payment in 2010/11

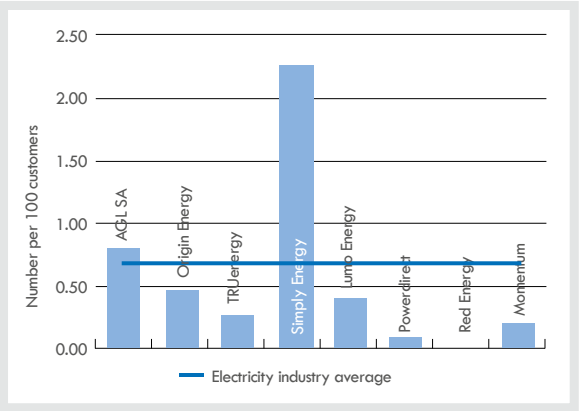


Figure 3.23: Ratio of small business gas customers on instalment payment plans to number disconnected for non-payment in 2010/11

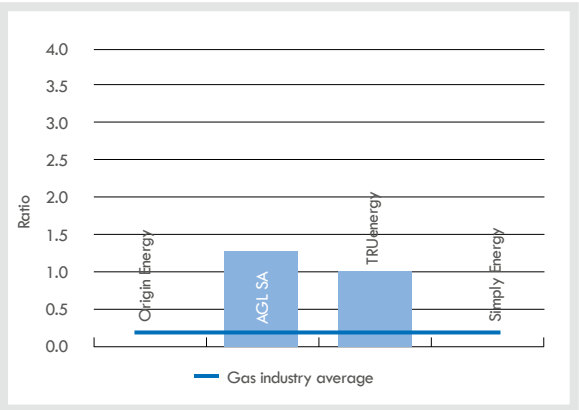


Figure 3.24: Percentage of small business gas customers reconnected after being disconnected for non-payment in 2010/11

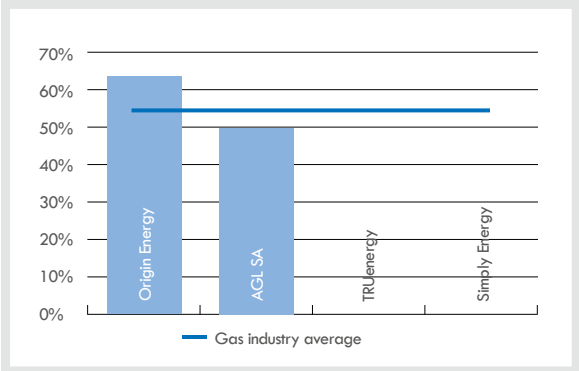


Figure 3.25: Number of small business gas customers with instalment payment plans in 2010/11

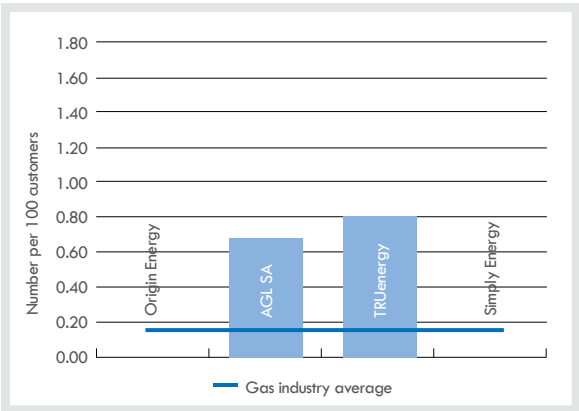
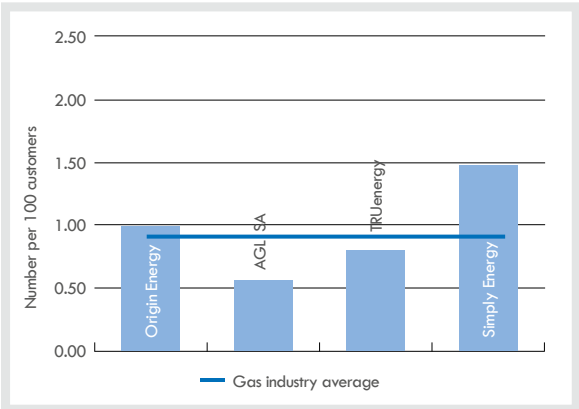


Figure 3.26: Number of small business gas customers disconnected for non-payment in 2010/11



4. ELECTRICITY DISTRIBUTION

The Commission places significant emphasis on monitoring and public reporting of the reliability performance of ETSA Utilities. As a monopoly service provider with regulated revenue and pricing arrangements, it is important to ensure, and to be able to demonstrate, that ETSA Utilities is using best endeavours to meet service standards set by the Commission in the Electricity Distribution Code.

Highlights 2010-11:

- ETSA Utilities achieved its customer service standards
- Substantial increase in complaints referred to the Energy Industry Ombudsman
- The Commission to undertake a review of the content and application of ETSA Utilities' complaints and dispute resolution policy
- Supply reliability performance again fell short of targets in 2010/11, impacted by extreme weather events
- No breach of regulatory standards occurred in relation to supply reliability performance, but the Commission will closely monitor ETSA Utilities' regional performance in 2011/12 to ensure that customers are not without supply any longer than is necessary
- ETSA Utilities has identified a number of distribution feeders which experienced low reliability in 2010/11 and has implemented an appropriate remediation program

Under national electricity regulatory arrangements, the prices which ETSA Utilities may charge for the electricity distribution services it provides are determined by the Australian Energy Regulator. However, the Commission continues to set and regulate the service standards applicable to ETSA Utilities and it is against these service standards that performance in 2010/11 is assessed in this report.

4.1 Customer Service

As there is not a competitive market for electricity distribution services to drive efficiencies and service improvements for customers, it is right for the Commission to require a high level of customer service from ETSA Utilities.

Under the terms of the Commission's Electricity Distribution Code, ETSA Utilities is required to use best endeavours to achieve customer service standards in relation to telephone and written responsiveness. It is also required to develop and implement Commission-approved customer enquiry and complaint handling processes.

Customer service standards

Under the terms of the Commission's Electricity Distribution Code, ETSA Utilities is required to use best endeavours to achieve customer service standards in relation to telephone and written responsiveness (Table 4.1). It is also required to develop and implement Commission-approved customer enquiry and complaint handling processes. A further standard is the requirement to provide customers with at least four days' notice of planned outages (for example, where supply to a customer or region needs to be cut due to maintenance or upgrade work).

While ETSA Utilities' overall performance in these key areas was good for 2010/11, the Commission has taken particular note of outcomes for notification of planned interruptions. Under the Commission's regulatory regime, it is expected that ETSA Utilities should provide four days' notice in respect of all planned interruptions. That notice is to be given in writing to each affected customer or, where that is not practical (due to the number of customers), by means such as a notice in the newspaper or by radio.

Table 4.1: ETSA Utilities annual standards

STANDARD - ANNUAL	PERFORMANCE 2010/11
85% of telephone calls answered within 30 seconds	(achieved)
95% of written enquiries to be answered within 5 business days	(achieved)
85% of written explanations for interruptions to supply to be provided within 20 business days	(achieved)
100% at least 4 business days prior written notice of planned interruptions	(achieved)

It is the Commission's position that as interruptions are a source of inconvenience to customers, ETSA Utilities should in all instances include notifications within its planned interruption operational procedures. This is particularly so in light of the fact that, in establishing the reliability performance regime, the Commission removed the impacts of planned interruptions from reliability standards based on representations from ETSA Utilities and on the express basis that it required and expected ETSA Utilities to deliver heightened notification performance for planned interruptions.

ETSA Utilities agrees with the proposition that it should include planned interruption notifications within its operational procedures in all instances and has advised the Commission that this is the case. For 2010/11, ETSA Utilities reported that, for each of the 1,789 planned outages on its distribution network, a notice was issued in accordance with the mandated timeframe.

The Commission considers this commitment and outcome a good result for customers. However, it also notes that the nature of the communication by ETSA Utilities needs to be targeted and effective so that each customer to be affected by the planned outage is properly advised.

While it is difficult to capture data in that regard, one indicator of the effectiveness of the planned interruption notice is the extent to which ETSA Utilities receives complaints about such interruptions when they occur. In 2010/11, ETSA Utilities received 46 complaints about planned interruptions where notice was not given within the mandated timeframe. Having reviewed those complaints, ETSA Utilities noted that while a notice had been issued within the timeframe, it had not been provided to the particular customers. This may have been due to the failure of ETSA Utilities' systems to identify the customer as being affected by the planned outage or by reason of some other procedural failure.

The Commission notes that this emphasises the need for robust systems, processes and controls for planned interruption notices. While in all cases there may be a process for disseminating notices, it is important that the right customers are targeted. The number of customers who have complained to ETSA Utilities over the past year (46) is at best a proxy for the true number of customers who failed to receive the proper notice (which will be higher). Although that true number is unlikely to be a significant proportion of ETSA Utilities' overall customer base, the inconvenience of interruptions means that ETSA Utilities should continue to monitor and refine its processes to ensure that number is as small as possible.

The Commission will continue to monitor ETSA Utilities' overall performance in this area, as well as the number of customer complaints received, to ensure that proper notice is provided and that the notice is accurate, targeted and effective for all affected customers.

Customer complaints

Table 4.2: Complaints performance

STANDARD	PERFORMANCE 2010/11
Complaints per 100 customers	(good)
Ombudsman complaints as a percentage of complaints received by ETSA Utilities	(on watch)

The Commission uses a combination of the number of complaints reported by ETSA Utilities and the number of complaints handled by the Energy Industry Ombudsman as an indicator of how well ETSA Utilities is responding to its customers' needs (Table 4.2).

Figure 4.1 shows that the total complaints per 100 customers received by ETSA Utilities, at 0.13, is considerably lower than the level of retailer complaints (2.5 per 100 customers) and has been declining in recent years.

Figure 4.1: ETSA Utilities complaints per 100 customers

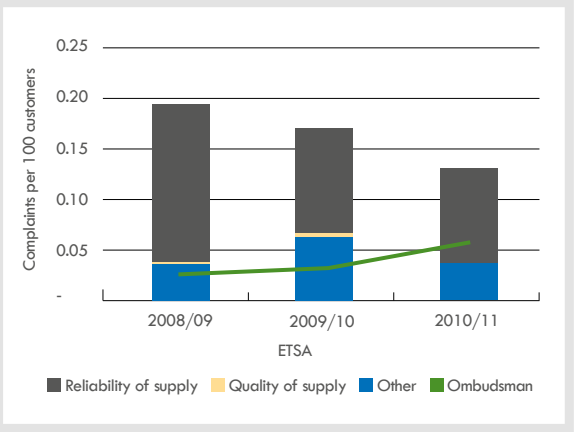
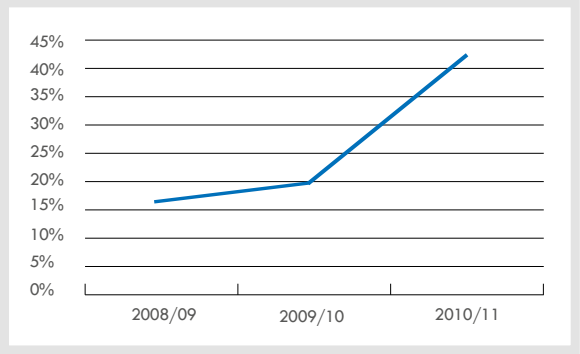


Figure 4.2, however, shows the trend over the last two years of an increase in the ratio of electricity distribution complaints received by the Energy Industry Ombudsman to the level of complaints received by ETSA Utilities. This indicates deterioration in the level of complaints being handled adequately by ETSA Utilities' internal complaint handling procedures, rather than needing to be handled by the Ombudsman's last resort mechanism.

This is a matter of concern, particularly as South Australia moves into a new national energy regulation framework (to be administered by the Australian Energy Regulator rather than the Commission). As noted previously, the Commission is currently reviewing retailer dispute and complaint procedures, liaising with the Energy Industry Ombudsman, to assess the adequacy of these procedures and the degree to which they are implemented in practice.

Based on the recent level of performance shown by ETSA Utilities in this area, the Commission will undertake the same exercise in relation to the adequacy and degree of implementation of its procedures.

Figure 4.2: Ombudsman complaints relative to complaints received by ETSA Utilities



4.2 Reliability

In the price-service setting process, the establishment of operational standards for the distribution network is fundamental. For electricity distribution, the two key reliability standards set by the Commission are based around the impact of supply interruptions on customers: the average annual duration of interruptions per customer (SAIDI) and the average annual frequency of interruptions per customer (SAIFI), established separately for seven geographic regions in the State.

The Commission reviewed and subsequently established the service standards applicable to ETSA Utilities for frequency and duration of interruptions for seven regions prior to the 2010-2015 regulatory period. These are specified by the Commission as best endeavours annual targets in the Electricity Distribution Code and were based on historical data extracted from ETSA Utilities' Outage Management System (OMS). Major changes were the amendment of regional SAIDI and SAIFI targets, the removal of restoration of supply targets and the introduction of reporting on low reliability feeders.

While there are no annual performance targets specified for the entire network (state-wide), there are implied targets based on the customer-weighted averages of the implied regional targets. For the 2010-15 regulatory period, these are 179 minutes per annum for duration of interruptions and 1.68 interruptions per annum for frequency of interruptions (Table 4.3).

ETSA Utilities' annual obligation to publicly report on low reliability performing feeders for the 2010-2015 regulatory period is based on individual SAIDI feeder performance relative to relevant regional SAIDI targets which, on average, results in the identification of about 5% of total feeders (approximately 90 feeders) across the network throughout the regulatory period. A SAIDI threshold multiplier of 2.1 was determined for the current regulatory period to provide the required sample.

In assessing performance against the standards, the relevant test is two-fold: first, has the target been met?; if not, did ETSA Utilities nevertheless use its best endeavours in its attempts to meet the target?

Table 4.3: SAIDI and SAIFI performance

REGION	TARGET	SAIDI 2010/11		TARGET	SAIFI 2010/11	
Adelaide Business Area	25	19	●	0.25	0.14	●
Major Metropolitan Areas	130	218	●	1.45	1.79	●
Central	260	582	●	1.80	2.74	●
Eastern Hills & Fleurieu Peninsula	295	465	●	2.80	3.29	●
Upper North & Eyre Peninsula	425	841	●	2.30	2.72	●
South East	295	277	●	2.50	1.67	●
Kangaroo Island	450	198	●	N/A	-	N/A
State-wide (implied)	179	311	●	1.68	2.05	●

It is only in cases where both elements of this test are not satisfied that ETSA Utilities will be found to have failed to meet the standard. That is, ETSA Utilities may fail to meet a target but, provided it used its best endeavours in attempting to meet that target, it will still satisfy the standard. A test of this sort allows for a more discretionary assessment of performance, focussing on customer service delivery in a wide range of circumstances. Alternative models (such as the exclusion of the impacts of severe weather events) involve no such discretion, only a mechanical assessment. The Commission is of the view that mechanical processes are less effective in protecting consumer interests than are systems such as the current one, on the basis that the current system permits the Commission to undertake a more detailed assessment of particular circumstances or events on their merits and to report those events publicly.

The Commission places significant emphasis on monitoring and public reporting of ETSA Utilities' reliability performance. As a monopoly service provider with regulated revenue and pricing arrangements, it is important to ensure and to be able to demonstrate that network reliability is maintained at appropriate levels. Deterioration in reliability performance may suggest the need for improved network maintenance procedures.

Performance

The reliability outcomes for ETSA Utilities' distribution network in 2010/11 were not good. In large measure, this appears to have been driven by the occurrence of three particular storms, which resulted in widespread damage to the network and a significant number of power outages. While the Commission acknowledges that ETSA Utilities cannot control the impacts of weather on its network (short of putting the entire network underground, which would be prohibitively costly), it maintains its view that while extremes of weather do occur, there is an overall expectation that the network is generally robust and that the period of time for which customers are off supply is minimised.

In assessing overall performance across the seven regions, therefore, the Commission's focus has been on ensuring that the operational procedures and protocols adopted by ETSA Utilities to maintain an adequate level of network reliability, even during extreme weather events, are appropriate and effective. Where there is a suggestion that these may have been problematic, the Commission will review those procedures and protocols in the coming months to determine the extent of any deficiencies and to identify remediation which might be undertaken by ETSA Utilities in the future.

The detailed considerations of the Commission in respect of reliability outcomes are set out below.

Only three of the seven regions, Adelaide Business Area, South-East and Kangaroo Island regions achieved their respective SAIDI and SAIFI targets during 2010/11 (Table 4.3).

Figure 4.3: Total State-wide SAIDI (minutes)

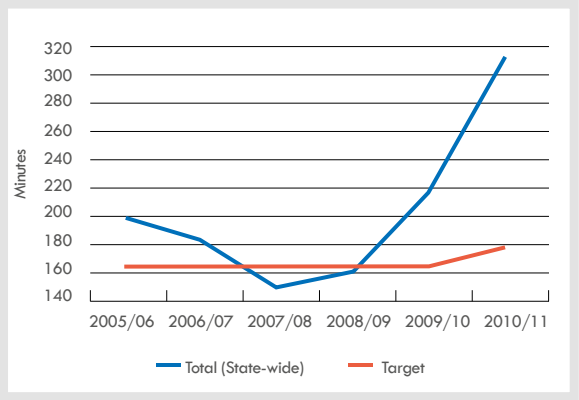
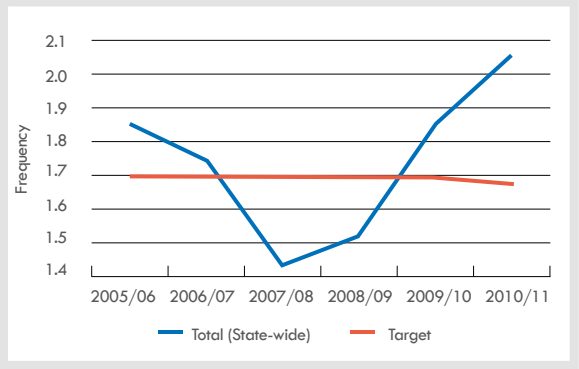


Figure 4.4: Total State-wide SAIFI (frequency)



It is clear from the reported results that the distribution system's reliability performance was significantly worse than the targets during 2010/11. South Australia experienced a higher than average level of extreme weather events during the year.

That said, the Commission does note that the targets set for the Adelaide Business Area, the South East and Kangaroo Island were all met by ETSA Utilities. In the case of the South East and Kangaroo Island, this was the second successive year of achievement; for the Adelaide Business Area, the result is consistent with long term good performance, with ETSA Utilities having met the target on most occasions over the past ten years.

The overall outcome, (as shown in Figure 4.3 & Figure 4.4), is similar to that observed during 2009/10, which itself was a year in which the Commission concluded that distribution system reliability was below expected outcomes. The relevant standard for assessing ETSA Utilities' performance from a regulatory perspective is, having accepted that targets have not been met, whether or not ETSA Utilities nevertheless used its best endeavours in attempting to deliver the targeted reliability.

In making representations to the Commission on that issue, ETSA Utilities has emphasised that there have been extremes of weather during the year which have strongly and directly influenced the reliability performance of its electricity distribution network. ETSA Utilities also noted last year that extreme weather events strongly influenced the poor performance results.

ETSA Utilities provided an accompanying report with its annual performance report - "ETSA Utilities annual reliability performance report 2010/11". The report highlighted unparalleled severe weather impacts in 2010/11 where the State experienced multiple severe weather events and noted as follows:

> *"In this one extraordinary year, the series of severe weather systems included seven Major Significant Weather Events (MSWEs), three of which we further categorise as exceptional MSWEs.*
>
> *For the purposes of this report, an "exceptional MSWE" is where System Average Interruption Duration Index (SAIDI) impacts on the distribution system are orders of magnitude greater than more typical MSWEs. For example, in one single event over the period 5-9 December 2010, ETSA Utilities calculates the SAIDI impact on the distribution system at 58 minutes, compared to a typical MSWE SAIDI impact of, around six minutes."*

The Commission acknowledges the difficulties associated with managing network performance following the exceptional number of severe weather events during 2010/11. However, the Commission maintains its view that while extremes of weather do occur, there is an overall expectation that the network is generally robust and that the period of time for which customers are off supply is minimised.

The state-wide annual performance outcome for SAIDI was significantly worse (43% higher) than last year and exceeded the implied target by 74%. The 2010/11 SAIFI result was 11% higher than last year exceeding the implied target by 22%.

Table 4.4: Contribution of interruption causes (planned and unplanned)

CAUSE ATTRIBUTED BY ETSA	PERCENTAGE OF TOTAL	
	2009/10	2010/11
Weather	32%	42%
Equipment Failure	30%	19%
Unknown	22%	18%
Third Party	8%	5%
Planned	7%	15%
Operational	0.5%	0.6%
Other	0.4%	0.1%

Best endeavours and extreme weather

In assessing reliability performance, variability due to extremes of weather can be excluded for the purpose of assessing underlying or normalised performance of the network.

This is an approach which ETSA Utilities promotes, such that the state-wide normalised duration of interruptions for 2010/11 (i.e. excluding the effect of severe weather) was 138 minutes, compared with 150 minutes in 2009/10, and as a result ETSA Utilities considers its 2010/11 performance excluding severe storms to be consistent with its 2009/10 performance.

Such an approach requires that the targets set for each reliability standard should also be normalised for the impacts of extreme weather. Where those targets are set based on actual historical outcomes, the normalisation process needs to be conducted for all prior years' data on a consistent basis. Furthermore, assumptions as to "normal" outcomes must be made for both past data and for future results.

The Commission does not consider that this normalisation approach is necessary in the context of the South Australian regulatory regime for service standards.

The approach taken by the Commission on this question has been to assess performance without any exclusions or normalisation. The Commission's focus has therefore been on ensuring that the operational procedures and protocols adopted by ETSA Utilities to maintain an adequate level of network reliability, even during extreme weather events, are appropriate and effective.

Such procedures involve not only taking steps to minimise the occurrence of supply interruptions during such events (e.g., transformer upgrades, effective vegetation clearance programs, patrolling of power lines), but also steps to reduce supply restoration times during widespread interruptions (e.g., appropriate resourcing, efficient call centre operation and dispatching of crews), but taking into account the specific circumstances of events. For example, major events may involve widespread significant access issues (e.g. due to flooding) that can significantly affect SAIDI and SAIFI statistics.

One outcome of the review of distribution service standards for the current regulatory period (2010-15) was that restoration targets would not be included and so 'time to restore supply performance' is no longer reported. However, an indication of restoration performance can be gleaned from dividing duration of interruptions by frequency of interruptions outcomes.

The Commission regards this as being of central importance in its consideration of whether or not ETSA Utilities has used its best endeavours in meeting the reliability targets specified in the Electricity Distribution Code.

Review of extreme weather performance 2010/11

The extent of the deterioration in duration and frequency of interruptions performance in 2010/11 is linked to a number of severe weather events that occurred in the first half of this year.

While ETSA Utilities recorded seven severe weather events in 2010/11, down from the 10 recorded in the previous year, there were three particularly significant storm events, only one of which triggered the Commission's Significant Performance Event Reporting Framework (an event the Commission deems to warrant a special ad hoc investigation and report, rather than wait to provide an assessment in the relevant Annual Performance Report - refer Market Information page on the Commission website) (Table 4.5).

The duration interruptions for these three events alone was 134 minutes, 43% of the total 2010/11 state-wide duration interruptions, and 75% of the implied annual target (refer Table 4.6). It should be noted that these estimates (including for Table 4.5) are based on the final details provided by ETSA Utilities for these events at the time.

These three events also impacted significantly on the annual performance achieved for the regions of Major Metropolitan Areas, Central, Eastern Hills & Fleurieu Peninsula and Upper North & Eyre Peninsula (refer Table 4.6), reflecting the pattern of the relevant weather systems. The impact of the three events on the annual performance target was significant in four regions, resulting in a significant impact on the overall state-wide target (75%).

Table 4.5: 2010/11 Severe weather events[1]

ITEM	10 JULY 2010 SWE	3-4 SEPT 2010 SWE	7-8 DEC 2010 SWE
Total Number of customers affected	122,000	151,000	128,000
Number of response actions	315	638	551
Number of wires down	380	590	136
Duration Interruptions (state-wide)	41.8	44.2	48
Frequency Interruptions (state-wide)	0.146	0.182	0.153
Restoration Times (state-wide)	285 minutes	243 minutes	314 minutes
Number of customers with >24hr outage	1,473	3,117	3,366
GSL payments (total)[3]	$1,300,000	$2,200,000	$3,200,000
	6,873	10,478	19,284
Longest outage duration	38.9 hours	59.2 hours	66.0 hours
Total number of telephone calls	38,447	80,604	49,481
% calls answered within 30 secs[4]	86.80%	78.50%	74.50%
Highest day call numbers	34,565[2]	50,363	24,129
Average wait time to talk to operator	8min:30sec	8min:06sec	6min:58sec
Number of unanswered calls	0	0	0
Satellite call centre in operation	Yes	Yes	Yes

1 based on data available at or around the time of the event.

2 previous peak prior to September 2010 SWE.

3 GSL payments assume all customers were affected for single phase faults and therefore ETSA Utilities expects that the amount will fall following site visits to confirm affected customers.

4 the telephone responsiveness service standard of '85% of calls answered within 30 seconds' is an annual target (i.e. not required to be met for a particular event).

It was reported in 2009/10 that restoration performance in the Upper North & Eyre Peninsula region was the worst recorded since 2002/03. The average restoration time for this region deteriorated further in 2010/11 to 309 minutes (from 251 minutes in 2009/10) suggesting a further deterioration in restoration performance.

The Upper North & Eyre Peninsula region has similar characteristics but lower customer densities to the Central region with many long feeders (i.e. part of the distribution network through which supply to a defined group of customers is directed) that traverse difficult terrain with difficult access. The customer base outside the major regional centres is highly dispersed and several smaller centres, such as Elliston, are situated at the end of long, radial feeders. Following widespread storm activity any faults on such feeders have to be fully patrolled before supply can be achieved. The radial network systems on Eyre Peninsula do not have back up network loops where an alternative supply can be provided in the event of an interruption.

Table 4.6: 2010/11 Severe weather events – regional duration interruptions[1]

REGION	REGIONAL DURATION INTERRUPTIONS (MINUTES)				
	9-11 JULY 2010 SWE	3-5 SEPTEMBER 2010 SWE	7-8 DECEMBER 2010 SWE	2010/11 TARGET	% OF ANNUAL TARGET
Adelaide Business Area	0	1.1	0	25	4.4%
Major Metropolitan Areas	43.6	39.3	9.1	130	70.8%
Central	12.8	89.5	220.8	260	124.3%
Eastern Hills & Fleurieu Peninsula	77.8	41.2	7.4	295	42.8%
Upper North & Eyre Peninsula	66.4	22.3	270.4	425	84.5%
South East	0	30.7	34.8	295	22.2%
Kangaroo Island	84.6	20.3	4.8	450	24.4%
State-wide	41.8	44.2	48	179	74.9%

1 based on data available at or around the time of the event.

Specific region performance

Major metropolitan areas region

Figure 4.5: Major metropolitan supply area

TARGET	SAIDI 2010/11	TARGET	SAIFI 2010/11
130	218	1.45	1.79

The Major Metropolitan Areas supplies about 71.3% of customers utilising about 30.5% (26,600 route km) of the distribution system. The distribution system in the region is about 40.3% underground and 59.7% overhead. This region includes the Greater Metropolitan Areas and the Rural Townships of Mt Gambier, Mt Barker, Whyalla, Pt Augusta and Pt Lincoln. ETSA Utilities asserts that these Metropolitan Areas can be severely affected during severe weather events by street trees which are permitted to grow over overhead power lines.

Both the frequency and duration targets for 2010/11 were not met. As such, the Commission must consider whether or not ETSA Utilities used its best endeavours in its attempts to meet those targets.

Having regard to the severity of three weather events (as noted in Table 4.6) affecting performance in this area, the number of customers in this area and noting that the reported outcome is an aberration when compared to previous performance, the Commission is not persuaded that ETSA Utilities failed to use its best endeavours to achieve the relevant standards.

That said, the performance was poor and the Commission will place ETSA Utilities' performance in the Major Metropolitan Areas Region on close watch for 2011/12.

Central region

Figure 4.6: Central region supply area

TARGET	SAIDI 2010/11	TARGET	SAIFI 2010/11
260	582	1.80	2.74

The Central Region (comprising Barossa, Mid North, Riverland and Murraylands), supplies about 12.3% of customers utilising about 28.6% (ie 24,900 route km) of the distribution system. The distribution system in the region is 8.7% underground and 91.3% overhead. ETSA Utilities asserts that this region can be severely affected by severe weather events due to a variety of reasons (vegetation, lightning strikes, high winds and the like).

While both the frequency and duration targets for 2010/11 were not met, the Commission notes that three weather events (as noted in Table 4.6) had a significant impact on performance. As such, the Commission must consider whether or not ETSA Utilities used its best endeavours in its attempts to meet those targets.

Based on available evidence, the Commission understands that the impacts of severe weather events on the duration of outages during 2010/11 was approximately ten times the historical average and more than six times the previous maximum contribution since 2005. In addition, the Commission notes that in areas such as the Central Region, where the customer mix is varied (regional townships, industry and farming/agricultural) and disparate, and where supply is often through long radial feeders, difficulties in patrolling, locating faults and obtaining access can potentially be exacerbated by the extremes of weather.

At the same time, the Commission notes that performance in this region has been persistently poor over time; for example, in 2009/10 ETSA Utilities reported that the average duration of interruptions was 40% greater than the target then applying (240 minutes).

On balance, the Commission is persuaded that the particular impacts of weather reported for this region during 2010/11 are sufficient to preclude a finding at this time that ETSA Utilities has failed to use its best endeavours to meet the service standards. That said, the performance was poor and the Commission will place ETSA Utilities' performance in the Central Region on close watch for 2011/12.

Eastern Hills & Fleurieu Peninsula region

Figure 4.7: Hill & Fleurieu supply area

TARGET	SAIDI 2010/11	TARGET	SAIFI 2010/11
295	465	2.80	3.29

The Eastern Hills & Fleurieu Peninsula Region supplies about 7.3% of customers utilising about 8.6% (7,500 route km) of the distribution system. The distribution system in this region is 20.5% underground and 79.5% overhead.

Both the frequency and duration targets for 2010/11 were not met. As such, the Commission must consider whether or not ETSA Utilities used its best endeavours in its attempts to meet those targets.

In its Reliability Performance Report, ETSA Utilities asserts that the region was significantly impacted by three major severe weather events with, for example, approximately 47% of this year's SAIDI result being attributable to those events. This stands in distinction to the average annual contribution from severe weather in this area of 23% of the SAIDI target.

In considering this performance, the Commission has had regard to previous performance in the area, which has generally been around the target requirement. As such, the Commission is prepared to take a more lenient view for this year, and to conclude that best endeavours have been used, with a close consideration of performance in this region to be undertaken during the coming 12 months.

Upper North & Eyre Peninsula region

Figure 4.8: Upper North and Eyre Peninsula supply area

TARGET	SAIDI 2010/11	TARGET	SAIFI 2010/11
425	841	2.30	2.72

The Upper North & Eyre Peninsula Region supplies about 4.7% of customers utilising about 18.8% (16,400 route km) of the distribution system. The distribution system in this region is 3.8% underground and 96.2% overhead. The Upper North & Eyre Peninsula Region can be severely affected by severe weather events due to the vast distances, access issues and low population density.

For 2010/11, ETSA Utilities failed to meet both performance targets. As such, the Commission must consider whether or not ETSA Utilities used its best endeavours in its attempts to meet those targets.

ETSA Utilities argued that performance in this area was severely impacted by eight reported severe weather events that contributed 523 minutes (62%) to the total SAIDI result reported.

The Commission highlighted its concerns regarding the Upper North & Eyre region in the 2009/10 Annual Performance Report and ETSA Utilities was requested to provide detail on how it will improve methods of responding to interruptions in the best interests of customers in the region. ETSA Utilities provided a report to the Commission detailing performance and restoration data and its ongoing strategy to reduce the duration of interruptions within the region.

ETSA Utilities' report outlined strategies to improve response times. It has undertaken the following actions to reduce the time to locate a fault on the distribution system, which will reduce the restoration time for customers. The actions employed include:

- using more fault indicators to reduce the time to determine the location of a fault;
- installing remote control on some circuit breakers and reclosers;
- providing stabilised binoculars and high intensity lighting which enable locating a fault from a distance; and
- the re-introduction of helicopter patrols (when conditions permit) to locate faults.

ETSA Utilities has undertaken the following actions to improve the availability of personnel to respond to interruptions on the distribution system:

- increase the number of power line workers in the region by 70%; and
- use of contractors to respond to single customer outages, leaving power line workers available to respond to distribution system faults.

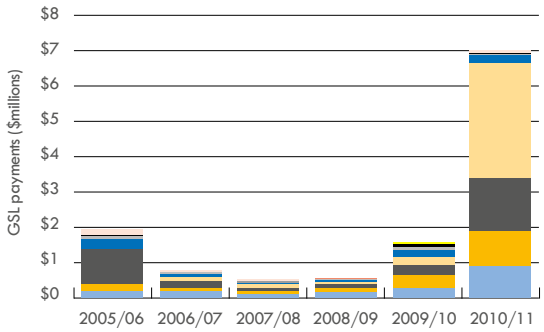
For further improvement ETSA Utilities is trialling the use of all-terrain vehicles to assist where access restrictions are preventing the restoration of supply.

These actions provide evidence supporting the Commission's finding that best endeavours have been used. Nevertheless, the Commission remains of the view that ETSA Utilities still needs to address the duration of interruptions in the Upper North & Eyre region, particularly in view of the impacts of the severe weather events during 2010/11.

Guaranteed service level payments

Previous research undertaken by the Commission in the form of 'willingness to pay' surveys indicates that customers are generally satisfied with the reliability of the electricity distribution system, and are not prepared to pay significant additional sums to improve reliability. As a result, the Commission's Electricity Distribution Code provides for a Guaranteed Service Level (GSL) regime. ETSA Utilities is required to make payments to customers who have received service that is worse than a pre-determined guaranteed level. There was a significant increase in the total level of GSL payments made in 2010/11 to $7.1 million compared with $1.6 million in the previous year (refer Figure 4.9).

Figure 4.9: GSL payments by category



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Street light repairs	$145,540	$34,460	$32,120	$16,020	$29,720	$75,445
New connection	$16,000	$15,150	$41,100	$17,950	$17,150	$18,480
Appointments	$280	$240	$260	$260	$40	$90
Frequency of interruptions (>15)	$11,200	$11,520	$320		$64,240	$11,470
Frequency of interruptions (>12 ≤15)	$99,240	$54,480	$25,800	$21,480	$127,520	$56,280
Frequency of interruptions (>9 ≤12)	$283,920	$96,480	$44,720	$72,880	$183,040	$238,770
Duration of any supply interruption (>24hrs)		$93,440	$89,920	$39,360	$198,400	$3,253,510
Duration of any supply interruption (>18 ≤ 24hrs)	$971,200	$190,240	$71,040	$111,040	$309,120	$1,502,185
Duration of any supply interruption (>15 ≤ 18hrs)	$239,160	$107,520	$90,360	$127,920	$384,960	$1,017,700
Duration of any supply interruption (>12 ≤ 15hrs)	$174,160	$181,520	$110,320	$152,560	$257,440	$888,980

This increase reflects the marked increase in duration interruptions payments increasing by $5.5 million, $3.3 million of which was for outage durations exceeding 24 hours, mainly due to the impact of the extreme weather events in July, September and December 2010, which ETSA Utilities' advises accounted for around 90% of the GSL duration payments. The GSL duration payments for 2010/11 ($6.7 million) were also some 8.5 times higher than the previous 5-year average annual performance of $0.8 million, highlighting the significant impact of these extreme weather events. Frequency-related payments (frequency interruptions) dropped 18%.

In relation to street light repairs, ETSA Utilities has noted that the decline in performance in timely repairing of street lights was mainly due to resources being redirected to deal with severe weather events, as outlined above in the assessment of network reliability.

The Commission is concerned to see any customers experiencing long outages, particularly those that exceed 24 hours, affecting 8,800 customers (1% of ETSA Utilities customer base). Instances occurred during the year where flooded terrain meant it was not possible to get crews in to safely fix faults. ETSA Utilities advised that in such limited situations it had relied upon Force Majeure provisions to suspend its GSL obligations for the period of time that field crews were unable to safely gain access.

The Commission is currently reviewing ETSA Utilities' claims and practices in this area to make sure it has complied with all regulatory requirements in seeking to rely on the Force Majeure provisions. If the Commission finds that the suspensions were unwarranted or not performed in accordance with regulatory requirements, it will require ETSA Utilities to recalculate and make good any GSL payments avoided to date and to improve its practices and procedures into the future.

Overall assessment of reliability

ETSA Utilities considers 2010/11 to be an abnormal year in terms of the impact of severe weather events on network reliability and GSL duration payments. The Commission accepts that there are some aspects of the three identified weather events that were exceptional.

In particular, the Commission has noted the data provided by ETSA Utilities in respect of the severe weather events on 3 to 4 September and 7 to 8 December demonstrate that the latter event required fewer ETSA Utilities response actions, affected 15% fewer customers, resulted in fewer lines down and resulted in less telephone calls from customers, yet restoration times were longer and the level of GSL payments was 45% higher.

This result highlights the importance of the Commission's continued emphasis on restoration performance and capabilities. However, as noted earlier, the Commission's regulatory regime does not assess weather-driven performance in this way and the Commission's approach is to form a view on overall annual performance having regard to particular instances such as the severe weather events noted by ETSA Utilities.

On that overall annual basis, the Commission is generally satisfied with the approach adopted by ETSA Utilities to prioritise restoration work, as follows:

- safety issues – e.g. wires down;
- critical infrastructure; and
- outages affecting the most customers.

In the Commission's report on the July 2010 event, the Commission also noted that there were not any systematic operational issues which impacted on ETSA Utilities' performance in dealing with this event, and this appears to be also the case for the September and December 2010 events.

ETSA Utilities advised that it annually prepares a Reliability Management Plan, which details the initiatives that it undertakes, with reliability improvement activities falling into two basic outcomes:

- reducing the number of interruptions experienced by customers (covering various equipment enhancements and maintenance); and
- improving response times of field crews to interruptions (covering 'find the cause' and network protection training, 'isolate and restore half first' policy and 'time to arrive' reporting and focus).

Low reliability feeders

As a part of the revised service standards arrangements developed by the Commission for ETSA Utilities for the 2010 to 2015 regulatory period, the Commission introduced a new reporting regime for poorly performing segments of the network, assessed by reference to low reliability distribution feeders.

This decision was based on the importance of regional customer information (the ability of a customer to identify what is happening in the local area) and the associated underlying narrative on performance. This requires ETSA Utilities to identify a group of worst performing feeders in each region each year (regardless of whether the applicable service standard for that region was met in a year), and report to the Commission on the following matters:

- the nature of any discrete areas of low reliability;
- the reasons for that performance; and
- the remedial actions it has taken or proposed where the improved performance is within its control (i.e., where the performance is not due simply to one-off storm or similar events).

The selection of low reliability feeders for this reporting purpose is based on individual SAIDI feeder performance relative to relevant regional SAIDI targets which, on average, results in the identification of about 5% of total feeders across the network throughout the regulatory period. The specific criterion used for this identification process was agreed between the Commission and ETSA Utilities as being those feeders which had an individual

SAIDI outcome greater than 2.1 times the SAIDI target for the region in which that feeder is located, for at least 2 consecutive years.

In 2010/11, ETSA Utilities reported that:

- 194 feeders qualified as low reliability distribution feeders, supplying around 60,000 customers (or 7% of ETSA Utilities' customers) (Table 4.7);
- the number of low reliability distribution feeders for 2010/11 was abnormally higher than the expected historical average of around 90 feeders, mainly due to the adverse impact of the severe weather events in both 2009/10 and 2010/11;
- the majority of the feeders (115) were single wire earth return feeders supplying around 9,000 customers located in rural and remote parts of the network;
- the remaining feeders (79) were located in various parts of the network; and
- the majority of these were adversely impacted by either random equipment failures, vegetation or animals and/or the number and magnitude of severe weather events in both 2009/10 and 2010/11.

To address the low reliability performance of these identified feeders, ETSA Utilities has undertaken various remedial actions, as follows:

- modified a supply point or re-configured a feeder supply;
- installed/upgraded equipment or installation/upgrade planned (e.g. includes reclosers, sectionalisers, line fault indicators, fuses, load switches, insulators, poles, animal guards, line covering and the like);
- connected a device or devices to SCADA to improve the visibility of the network;
- re-strung conductors;
- provided additional equipment to field crews to assist in fault finding and reducing restoration times;
- installed a supply auto-changeover arrangement;
- scheduled additional insulator washing;
- negotiated additional vegetation clearance; and
- investigating additional reliability management options.

The Commission is satisfied with the processes used by ETSA Utilities to identify the low reliability performing feeders and the remedial actions proposed and undertaken. As this is the first year of the scheme, there is little more analysis which can be undertaken at this time. However, as the scheme progresses, the Commission will look to identify feeders which exhibit continued low reliability performance over time. Such continued poor performance may indicate that ETSA Utilities' remediation program requires revisiting.

To provide detail of performance of each feeder, the Commission has published data relating to each of the feeders identified, by region, on its website as a part of its time-series data Statistical Appendix.

Table 4.7: Low reliability performing feeders in 2010/11

REGION	NUMBER OF FEEDERS	NUMBER OF CUSTOMERS
Adelaide Business Area	1	6
Major Metropolitan Areas	24	33,812
Central	87	10,988
Eastern Hills/Fleurieu Peninsula	14	8,184
Upper North & Eyre Peninsula	57	4,942
South East	11	941
Kangaroo Island	-	-
State-wide	194	58,873

Compliance

During 2010/11, several general electricity distribution compliance matters arose requiring the Commission's attention. Customer complaints to the Energy Industry Ombudsman Scheme have been integral in identifying such non-compliances and systemic issues, with the Commission acknowledging that in a number of instances ETSA Utilities has proactively advised the Commission of issues.

The non-compliances were generally associated with GSL payments as a result of storm activity not being paid for the full duration of the outage or within three month timeframe.

Around 700 GSL duration payments (or 2% of the total payments for 2010/11) were issued around three weeks after the three month timeframe for the July 2010 extreme weather event due to the very large volume of payments and field site visits required to determine payment eligibility. This was not considered to be material non-compliance and was not repeated following the September or December extreme weather events, indicating no systemic issues.

These issues were dealt with by the Commission collaboratively with ETSA Utilities and resolved to the Commission's satisfaction. Where compliance issues are not yet resolved, the Commission continues to monitor the resolution of the matters and will implement its Enforcement Policy where necessary.

5. ELECTRICITY TRANSMISSION

The Commission places significant emphasis on monitoring and public reporting of the reliability performance of ElectraNet (the company that operates the South Australian electricity transmission network). As a monopoly service provider with regulated revenue and pricing arrangements, it is important to ensure, and to be able to demonstrate, that ElectraNet is using best endeavours to meet service standards set by the Commission in the Electricity Transmission Code.

Highlights 2010-11:

- The transmission network maintained its high level of reliability in 2010/11
- ElectraNet is progressing well with the Adelaide CBD reinforcement project

As for electricity distribution, the AER, rather than the Commission, administers the price regulation scheme for ElectraNet.

Service Standards associated with that price are established by the Commission. For transmission, the key standard is the level of exit point reliability mandated: the obligation to restore supply within specified timeframes in the event of an outage and the requirement to provide redundant capacity so that supply is continuous even if one part of the network fails. Those standards were not breached during the year.

The transmission network maintained its high level of reliability in 2010/11:

- high circuit availability (Figure 5.1), with the target set by the AER;
- low system minutes off supply (Figure 5.2); and
- transmission system outages contributed 6.6 minutes to State-wide SAIDI (average duration of interruptions) result during 2010/11, compared with 8.9 in 2009/10.

Figure 5.1: ElectraNet circuit availability

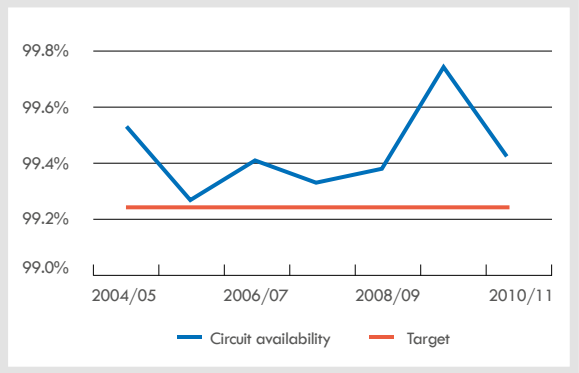


Figure 5.2: ElectraNet number of supply interruptions per annum and associated system minutes off supply

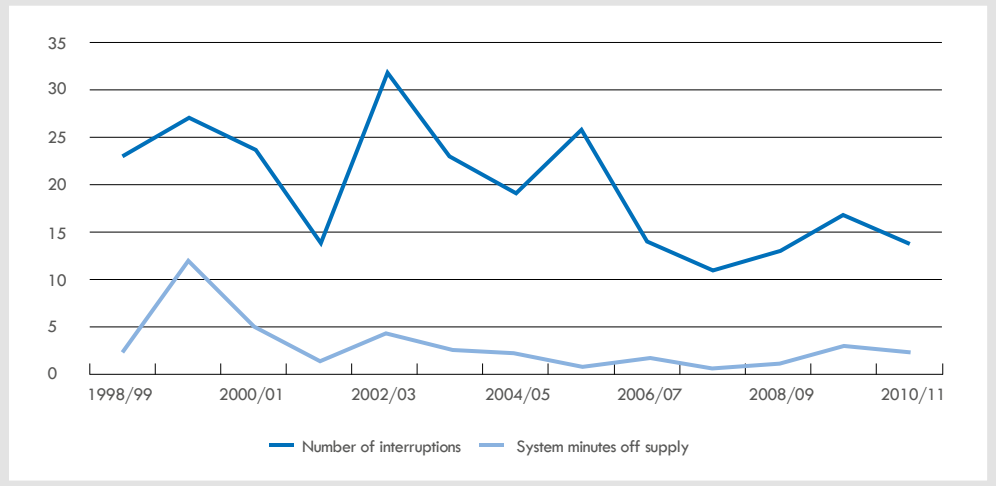
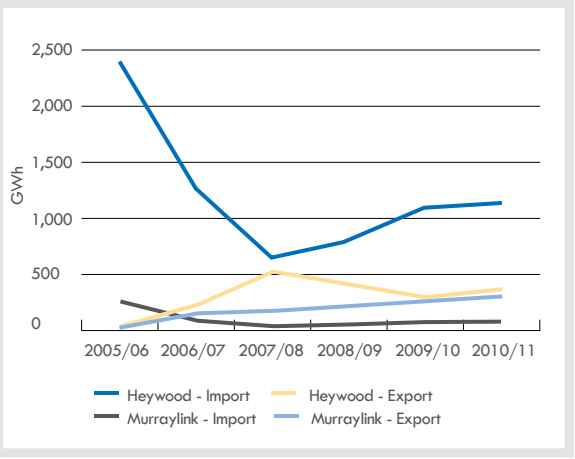


Figure 5.3: Electricity imports/exports – Heywood and Murraylink interconnectors



Source: AEMO Electricity Statement of Opportunitues

It is also important to monitor the performance of interconnectors linking South Australia to other regions of the National Electricity Market (NEM), in part because reliable interconnector performance may assist in reducing electricity prices to South Australia customers. There are two regulated interconnectors between the South Australian and Victorian regions of the NEM; the Heywood interconnector of which the South Australia section is operated by ElectraNet, and the Murraylink interconnector, operated by Murraylink Transmission Company.

Information regarding interconnector performance is available from the Australian Energy Market Operator (AEMO), including historic flows across the two interconnectors linking the South Australian and Victorian regions of the NEM (Figure 5.3).

Interconnector reliability has been high during the 2010/11 financial year. Murraylink and the Heywood interconnectors continue to be contributors to maintaining a secure and reliable electricity system in South Australia.

In light of concerns the Commission had in respect of the compliance performance of Murraylink at the end of the 2009/10 reporting year, and in keeping with the Commission's risk based approach to compliance, the Commission engaged an auditor to perform a compliance audit.

The audit tested, and provided an opinion on, whether Murraylink:

- had a compliance program that met the specifications of the Australian Standard on Compliance Programs (AS-3806); and
- could demonstrate compliance with various obligations that the Commission had assessed as being of high risk in terms of the likelihood of a breach occurring, or the impact to customers or the wider public if a breach occurred.

In respect of Murraylink's compliance program, several issues resulted in a qualified opinion being expressed in relation to the compliance controls that Murraylink has in place to comply with the specifications of AS-3806.

The auditor provided a detailed recommendation on how the licensee should address each issue identified and Murraylink was able to provide comments on the recommendation and identify when and how the recommendation would be implemented.

Murraylink has accepted the majority of the findings and the recommendations proposed, and the Commission is continuing to collaborate with Murraylink and monitor progress.

Major projects

ElectraNet is progressing with the Adelaide CBD reinforcement project, which is on schedule to meet the required reliability standard for the Adelaide CBD by the 31 December 2011 deadline. The importance of this project was highlighted during the year, as there was an equipment failure at the current Adelaide CBD substation. While that failure did not lead to any loss of supply (alternative supply arrangements were made available by ETSA Utilities), it did indicate the risks of reliance upon a single point of supply. The Commission required ElectraNet to provide it with detailed reporting on this incident and closely monitored ElectraNet's repair program. Ultimately, ElectraNet effected a repair to the failed equipment in a timely manner.

The Ardrossan West substation upgrade, which was another significant project carried out during 2010/11, was completed in July 2011.

6. GAS DISTRIBUTION

The Commission places significant emphasis on monitoring and public reporting of the performance of Envestra Ltd (Envestra). As a monopoly service provider with regulated revenue and pricing arrangements, it is important to ensure, and to be able to demonstrate, that Envestra is using best endeavours to meet service standards set by the Commission in the Gas Distribution Code.

Highlights 2010-11:

- Large increase in complaints reported, but driven by improved recording system
- The level of gas losses from the distribution network remains high, but reporting against a new standard commenced in 2011/12

6.1 Customer Service

The Commission does not have a pricing role in respect of gas distribution, a role performed by the AER. The Commission also has no role in the regulation of gas transmission.

The Commission continues to set and regulate the service standards applicable to Envestra and it is against these service standards that performance in 2010/11 is assessed.

Envestra service standards

The Gas Distribution Code imposes fewer service standards on Envestra (e.g. in relation to reliability of the distribution network) than does the Electricity Distribution Code on ETSA Utilities (Table 6.1). This reflects the more reliable nature of gas supply, particularly in relation to supply interruptions and variations in quality of supply. This is in part because gas pipelines are not subject to the vagaries of weather to the same extent.

Table 6.1: Envestra annual standards

STANDARD	PERFORMANCE 2010/11
100% of new supply addresses connected on agreed date or within 20 business (after preconditions met)	(>99.8%)
100% of previously connected supply addresses connected within one business day of distributor receiving retailer notification (after preconditions met)	(>99.7%)

A change made to the Gas Distribution Code during 2010/11 (effective 1 July 2011) removed the requirement for Envestra to provide written advice within 5 business days of a planned interruption, in favour of a new obligation to provide customers with written notification containing prescribed information where the replacement of metering installations has occurred. This addressed the Commission's primary concern in this area to ensure that customers are provided with adequate information to allow them to directly contact Envestra-employed personnel enabling them to organise a "relight" following a meter change-over.

Envestra customer complaints

The Commission uses a combination of the number of complaints reported by Envestra and the number of complaints handled by the Energy Industry Ombudsman as an indicator as to how well Envestra is responding to customer needs (Table 6.2).

Table 6.2: Complaints performance

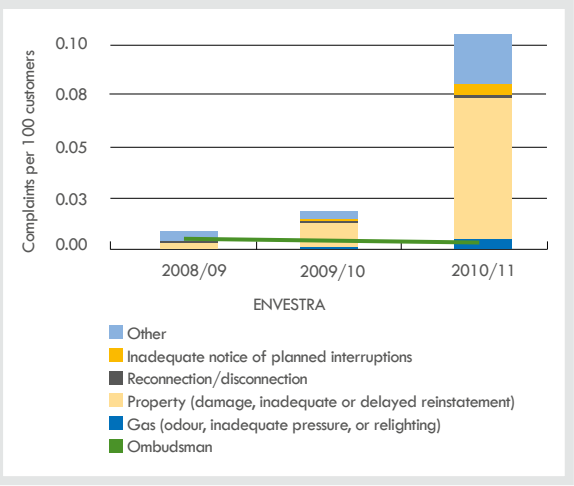
STANDARD	PERFORMANCE 2010/11
Complaints per 100 customer	(on watch)
Ombudsman complaints as percentage (%) of Envestra received complaints	(good)

Unlike the case for electricity distribution, South Australian gas customers do not currently have a direct contractual relationship with their distributor, and so customer interaction with Envestra is much less than the interaction electricity customers have with ETSA Utilities. A direct contractual relationship between gas customers and Envestra will exist under the new National Energy Customer Framework (NECF), which is planned to operate in South Australia from 1 July 2012.

Envestra continues to receive a very small number of customer complaints. Total complaints per 100 customers received by Envestra in 2010/11 (0.10) was considerably lower than those received by gas retailers (1.4 per 100 customers) and lower than those received by ETSA Utilities (0.13 per 100 customers), but showed a significant increase (Figure 6.1). Envestra advises that a more stringent and consistent approach is being provided to the classification of complaints, with the figures now including some reports previously considered as enquiries.

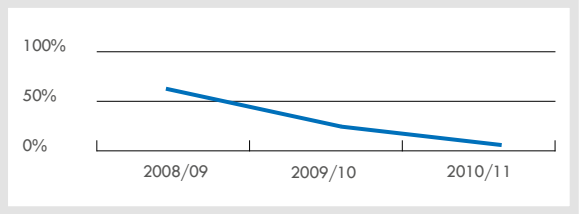
To the extent that the increase in direct complaints to Envestra, 30 (2008/09) to 419 (2010/11), is driven by improved recording systems then the improvement in data quality is welcomed. However, it makes trend analysis difficult. A more reliable indicator over this period is the number of complaints received by the Ombudsman (where data quality has been consistent), and it is noted that Ombudsman complaints have declined from 18 to 13.

Figure 6.1: Envestra complaints / 100 customers



The significant decline in the ratio of complaints received by the Ombudsman to the level of complaints received by Envestra (Figure 6.2) is consistent with the increase in complaints being driven by a reclassification of reports.

Figure 6.2: Ombudsman complaints relative to complaints received by Envestra



Noting that the level of complaints is relatively low, the Commission will monitor Envestra complaints during the coming year to determine if the upward trend warrants further attention.

In light of some concerns the Commission had in respect of the compliance performance of Envestra at the end of the 2009/10 reporting year, and in keeping with the Commission's risk-based approach to compliance, the Commission undertook a compliance audit to test whether Envestra:

- had a compliance program that met the Australian Standard on Compliance Programs (AS-3806); and
- could demonstrate compliance with a various obligations that the Commission had assessed as being high risk in terms of the likelihood of a breach occurring, or the impact to customers or the wider public if a breach occurred.

The audit found several specific compliance program issues, which resulted in a qualified or an adverse opinion being expressed in relation to some of Envestra's compliance controls and practices.

The auditor provided detailed recommendations on how Envestra should address each of the findings. Envestra has accepted most of the auditor's findings and recommendations proposed, and the Commission is continuing to collaborate with Envestra and monitor remediation progress.

6.2 Gas Leaks

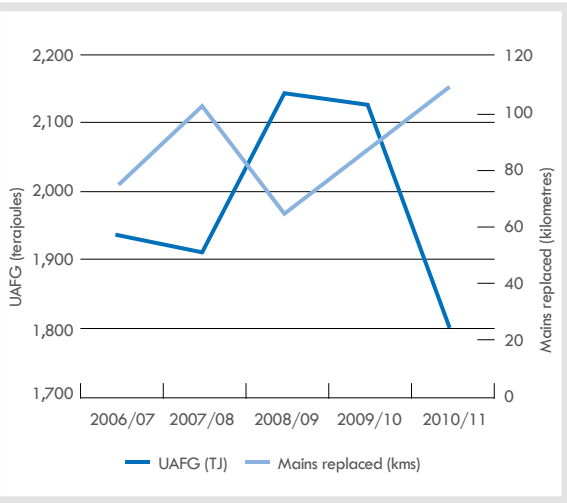
The Commission closely monitors the quantity of unaccounted for gas (UAFG), which is the amount of gas lost through the distribution network and is largely associated with the composition of the gas mains. In particular, gas distribution networks with a high proportion of cast iron and unprotected steel pipelines generally experience higher levels of UAFG, since such pipelines are more susceptible to corrosion and leaking joints. This metric is particularly important from a safety perspective.

The Commission has amended the Gas Distribution Code so that from 1 July 2011, Envestra must use its best endeavours to achieve:

- a level of UAFG for its distribution system of 1,626 TJ by the end of 2016; and
- annual reductions in the level of UAFG in each year up to and including 2016.

Reporting against this required performance will commence with the 2011/12 Annual Performance Report. In 2010/11, Envestra reported a significant decline (15%) in the level of UAFG (Figure 6.3). However, the Commission and the Technical Regulator have concerns with the consistency of the data provided prior to 2010/11.

Figure 6.3: UAFG and mains replaced



7. RENEWABLE ELECTRICITY GENERATION

This section provides a brief overview of developments in renewable electricity generation.

7.1 Wind

South Australia has 3,687 MW of installed conventional electricity generation (fuelled by coal, natural gas, and distillate) and some 1,156 MW of licensed wind generation capacity (Table 7.1), approximately 1,150 MW of which is installed and operational.

South Australia has the highest installed capacity of wind generation and the highest proportional contribution by wind energy to State electricity demand in Australia.

A further 2,022MW of wind generation capacity has been identified as being advanced or publicly announced (Table 7.2).

The overall summer peak demand in South Australia rose from 3,213 MW in 2007/08 to 3,433 MW in 2010/11. South Australia has a minimum load of approximately 1,100 MW. The licensed and operational capacity of wind generation in South Australia now exceeds the State's normal minimum load.

Highlights 2010-11:

- Renewable electricity generation continues to expand in South Australia, with 1,156 MW of wind generation licensed by the Commission and over 47,000 (121 MW) rooftop photovoltaic generators installed

Expansion of wind generation developments in South Australia is expected to continue as a result of the Federal Government's enhanced Renewable Energy Target (RET) applied to electricity retailers and the expected introduction of carbon pricing from 1 July 2012. Major expansion of wind generation in South Australia beyond current levels is likely to require significant investment in the transmission network to ensure that it can cope with the transfer of high levels of wind energy.

Table 7.1: Licences - wind generation plant

LICENSEE	LOCATION	CAPACITY (MW)
AGL Hydro Partnership & Hallett Hill Pty Ltd	Hallett Hill Wind Farm	71
AGL Hydro Partnership & Hallett Hill Pty Ltd	North Brown Hill Wind Farm	133
Brown Hill Pty Ltd	Brown Hill Wind Farm	95
International Power	Canunda	46
Cathedral Rocks Wind Farm	Cathedral Rocks	66
Lake Bonney Windpower Pty Ltd	Lake Bonney Wind Farm (stages 1, 2 and 3)	279
Mount Millar Wind Farm	Mount Millar	70
Pacific Hydro Clements Gap Pty Ltd	Clements Gap	58
Snowtown Wind Farm Pty Ltd	Snowtown	99
Starfish Hill Wind Farm Pty Ltd	Starfish Hill	35
Trust Power Holdings	Barunga Ranges	2
Wattle Point Wind Farm Pty Ltd and AGL Hydro Partnership	Wattle Point	91
Waterloo Wind Farm Pty Ltd [1]	Waterloo Wind Farm	111
TOTAL		1,156

1 company applied for 129MW, but only granted 111MW.

Table 7.2: Wind generation projects - advanced proposals or publicly announced

PROPONENT	LOCATION	CAPACITY (MW)	COMMISSIONING DATE
Acciona Energy	Allendale East	69	Sept 2014
AGL Energy Limited	Hallett III (Mt Bryan)	99	unknown
AGL Power Generation	Hallett V (The Bluff)	53	December 2011
Infigen Energy	Woakine Stage 1	508	July 2015
NP Power	Lincoln Gap	148	unknown
Origin Energy	Collaby Hill	80	July 2015
Pacific Hydro Pty Ltd	Carmodys Hill	140	unknown
Pacific Hydro Pty Ltd	Keyneton	131	unknown
Transfield Services	Kongorong	100	unknown
Transfield Services	Kulpara Wind Farm	60	unknown
Transfield Services	Mt Hill	80	unknown
TRUenergy	Robertstown	75	unknown
TRUenergy	Stony Gap	123	unknown
TRUenergy	Waterloo Stage 2	18	unknown
Trust Power	Snowtown Stage 2	210	December 2012
Willogoleche Power Pty Ltd	Willogoleche	74	unknown
Wind Prospect Pty Ltd	Green Point	54	unknown
TOTAL		2,022	

Source: AEMO, "2011 South Australian Supply and Demand Outlook".

7.2 Photovoltaics

The incidence of rooftop solar photo-voltaic (PV) electricity generators is increasing in South Australia, in response to government financial incentives.

Amendments to the South Australian scheme in July 2011 changed the feed-in tariff that can be earned by future customers that install eligible solar PV generators. The current feed in tariff will be phased out for new customers over the next two years. Customers who connected by 30 September 2011 will receive 44c per kWh until 30 June 2028. New customers who connect PV cells between 1 October 2011 and 30 September 2013 will receive 16c per kWh until 30 September 2016.

However, all customers with eligible PV generators will be entitled to an additional amount, which is to be determined by the Commission. The amount determined by the Commission is to reflect the fair and reasonable value to a retailer of electricity fed into the network, and all retailers selling electricity to customers eligible to receive the feed-in tariff would be required to pay the amount.

There is significant interest being shown in installing PV systems, with data supplied by ETSA Utilities showing a large increase in the number of solar PV connections and installed capacity since the scheme commenced (Table 7.3 and Figure 7.1). It is estimated that by December 2011 approximately 80,000 customers will have installed solar PV cells (i.e. 10% of all small electricity customers in South Australia).

PV generators are exempt from the licensing requirements of the Electricity Act, by virtue of their small capacity, but are required to comply with safety and technical requirements of the Act and certain connection requirements imposed by ETSA Utilities. Chapter 2 of the Commission's Electricity Distribution Code provides a framework for such connection.

Figure 7.1: PV customers and electricity exported

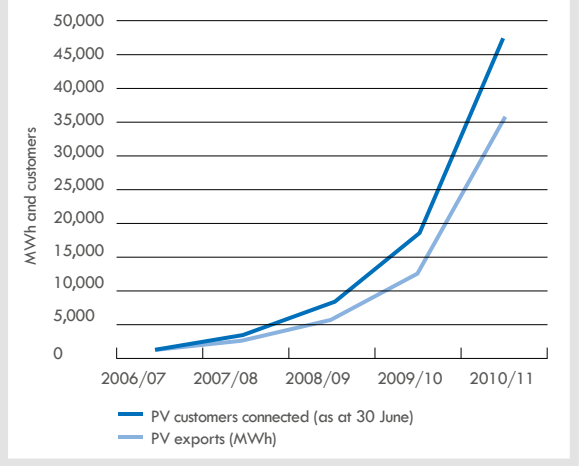


Table 7.3: PV capacity and electricity generated

	2006/07	2007/08	2008/09	2009/10	2010/11
PV Exports (MWh - estimated)	1,510	2,476	5,509	12,517	35,843
PV Customers connected (as at 30 June)	1,599	3,203	8,571	18,306	47,318
Installed Capacity (MW - estimated)	2.5	5.1	12.6	26.5	120.7

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