

27 March 2020

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Dear Dane

### **DPP3 QUALITY STANDARD VARIATION**

Thank you for your letter dated 17 March 2020, responding to our request to consider an alternative approach to the quality standard variation requirements set out in IM clause 4.5.5.

We confirm our intention to submit a quality standard variation.

#### **Elements of Quality Standard Variation**

We expect to propose new parameters for:

- Planned SAIDI;
- Unplanned SAIDI;
- Planned SAIFI; and
- Unplanned SAIFI.

In proposing new parameters for the quality standards, there will be a consequential impact on the planned and unplanned (SAIDI) quality incentives.

#### **Expected Grounds for Application**

The Commission has set separate quality standards for planned and unplanned interruptions for DPP3. The unplanned quality standard sets an annual limit of 81.89 SAIDI and 1.4687 SAIFI.

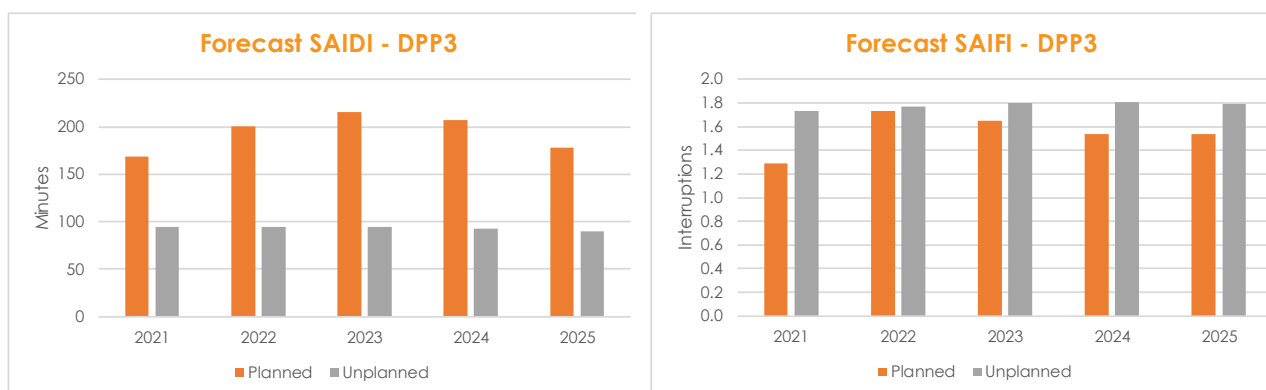
The planned quality standard sets a limit of 979.80 minutes (SAIDI) and 5.5385 interruptions (SAIFI) for the five years of DPP3. However, because Aurora expects to transition to a CPP commencing 1 April 2021, the planned quality standard is pro-rated to reflect the shorter period that Aurora will be on the DPP. Pursuant to clause 9.4 of the DPP3 determination, Aurora will be subject to adjusted limits of 195.96 SAIDI and 1.1077 SAIFI for planned work in RY2021.

**Table 1: Summary of applicable quality standards in RY2021 under DPP3**

	SAIDI Limit	SAIFI Limit
Planned	195.96	1.1077
Unplanned	81.89	1.4687

For comparison, Aurora's current forecast of network performance for the DPP3 regulatory period is set out below.

**Figure 1: Forecast Reliability - DPP3**



As the Commission will see, even accounting for uncertainty in the forecast, it is very likely that Aurora will not comply with either the planned or unplanned limits in RY2021.

Low levels of historical investment have resulted in deterioration of Aurora's network assets that now require remediation. This has impacted Aurora's reliability performance, as measured by SAIDI and SAIFI, and Aurora has failed to meet its SAIDI and SAIFI quality standards during the last four regulatory years. Aurora appreciates that this level of performance is below what customers are used to.

As the Commission knows, Aurora is in the midst of a substantial programme of re-investment in the network to address network reliability (amongst other matters, including safety). This programme of work has resulted in elevated levels of planned outages. We are focusing on reducing the levels of planned and unplanned outages on our network and, in due course, we expect our SAIDI and SAIFI performance to improve. However, we acknowledge that this will take time. We expect that the current level of planned outages will continue in the medium term as a significant part of our renewals work requires parts of the network to be de-energised so that the work can be completed safely.

In parallel, we are forecasting a gradual improvement in our unplanned SAIDI over the course of the CPP period. But much of the work we are doing is intended to arrest the deterioration and stabilise network performance, rather than to significantly improve performance. While we are forecasting a 7% improvement in unplanned SAIDI in urban and rural areas, and a 10% improvement in remote rural areas, there is no realistic prospect of achieving more substantial improvement in the short term. Our consultation with consumers also demonstrates that consumers would not support the level of expenditure required to significantly improve network performance in the short term, particularly in light of the material price increases implied by our current CPP plan.

The quality standards set out in DPP3 do not take into account Aurora's current circumstances and Aurora's recent actions to address its historic non-compliance. Crucially, the quality standard limits in DPP3:

- do not reflect that fact that Aurora's remedial capital works programme will require Aurora to maintain current levels of planned outages in order to safely address historic under-investment and improve reliability. Those levels will be in excess of the standards set out in DPP3; and
- assume a reduction in unplanned outages that is not realistically achievable in the short to medium term, even though Aurora is forecast to continue incurring both capex and opex that is well in excess of the DPP3 allowances.

It will not be possible for Aurora to comply with the quality standards set out in DPP3. As a consequence, the standards will in practice force Aurora to breach to price-quality path.

As regards planned outages, scaling back renewal of our network is not an option as it would lead to an increase in unplanned outages and greater safety risks on the network. We take seriously our responsibility to provide a safe, reliable electricity supply to our customers and the community. It would be unacceptable if our assets were to fail in service due to their condition or a lack of maintenance.

As regards unplanned outages, our forecast network performance is against a background of a substantial improvement programme. We are already doing what we can to arrest the trend of deterioration and stabilise network performance.

In our July 2019 submission on the DPP3 draft decision we submitted that quality standards must be reasonably capable of compliance, and that it would be inappropriate to expose EDBs to the risk of pecuniary penalties in circumstances where compliance is not reasonably possible. The Commission's response in the Reasons Paper accompanying the DPP3 final decision is that:

- to the extent inadequate asset management has led to a deterioration such that an EDB is unable to comply, it is appropriate that that EDB should improve its performance; and
- an option to apply for a quality standard variation is available.

We acknowledge that historic underinvestment is the principal driver of Aurora's non-compliance. But, importantly, our forecast network performance in RY2021, while unlikely to result in compliance, is a step on our current journey to improved network reliability.

Furthermore, while we expect our current programme to improve network reliability over the longer term, there are realistically no actions that we could take at this point that would result in compliance in RY2021. So, while we acknowledge the obligation to improve our performance, the fact remains that compliance with the DPP3 quality standards in RY2021 is beyond our control.

I trust that the above is clear. If you have any questions, please contact me.

Yours sincerely



**Alec Findlater**

General Manager, Regulatory & Commercial

