

19 August 2013

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

Dear Mr Pierce 

**Review of the national frameworks for transmission and distribution reliability –
Response to Consultation Paper**

ActewAGL Distribution (ActewAGL) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission's) Consultation Paper on the review of national frameworks for transmission and distribution reliability.

ActewAGL has contributed to the submission by the Energy Networks Association (ENA) and is supportive of the views outlined therein. In particular, ActewAGL is supportive of the Commission's intention to establish reliability frameworks that promote improvements in economic efficiency via an output-based approach. However, the specific proposal put forward in the Consultation Paper appears unnecessarily costly, involving both centralised and decentralised economic assessments of alternative reliability levels as well as audits of internal business processes. A market-based approach utilising an adequately specified service incentive scheme would be administratively less expensive and would foster innovation leading to more efficient outcomes in the long term.

The purpose of this submission is to comment briefly on the role of studies into willingness to pay (WTP) or value of customer reliability (VCR) in the framework. Understanding consumer preferences in relation to the balance between cost and supply reliability will be critical to any economic approach. For the past decade, ActewAGL has been at the forefront of WTP research utilising world-leading authorities in the application of choice modelling techniques to gain a detailed understanding of these preferences. We are pleased to note the comments in the Commission's recent discussion paper, *The Hitchhiker's Guide to the NEM*, in relation to the groundbreaking study by NERA and ACNielsen commissioned by ActewAGL in 2003.¹ That study assessed the preferences of both residential and commercial customers in relation to electricity supply reliability, electricity supply quality and gas supply reliability.²

ActewAGL has subsequently been involved in further choice modelling work, undertaken by researchers at the Australian National University and other universities, assessing

¹ Australian Energy Market Commission 2013. *The Hitchhiker's Guide to the NEM: What was the question again?* Discussion Paper: Maddocks Energy Signature Lunch, 7 August 2013, Sydney, Australia, p18.

² NERA and ACNielsen 2003, *Willingness to pay research study*, A Report for ACTEW Corporation and ActewAGL prepared by NERA and ACNielsen, September.

WTP for overhead-to-underground electricity network conversion and the value of supply reliability to domestic electricity and gas customers.^{3,4,5}

Periodic research of this nature will form part of ActewAGL's ongoing consumer engagement programme, as recognised by the Commission.⁶ ActewAGL notes the proposal in the Consultation Paper that the Australian Energy Regulator be responsible for updating estimates of the VCR at least every five years. To avoid costly duplication of resource-intensive surveys, it will be important to ensure that reliability frameworks allow any research undertaken by network service providers to be used in regulation of reliability, where it is has been appropriately peer reviewed and supported by independent experts.

If you would like to discuss this submission, please contact Dr Ben McNair, Principal Economist, on (02) 6248 3386.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Costello', with a long horizontal flourish extending to the right.

Michael Costello
Chief Executive Officer

³ McNair B.J. and Abelson P., 2010. Estimating the Value of Undergrounding Electricity and Telecommunications Networks. *The Australian Economic Review* 43, 376-388.

⁴ McNair B.J., Bennett J., Hensher D.A. and Rose J.M., 2011. Households' Willingness to Pay for Overhead-to-Underground Conversion of Electricity Distribution Networks. *Energy Policy* 39, 2560-2567.

⁵ McNair, B.J. and Ward, M.B. 2012, *Balancing cost and standards of service: the stated preferences of Canberra households*, presented at Energy Networks Conference, 2 May, Brisbane, Australia.

⁶ Australian Energy Market Commission 2013. *The Hitchhiker's Guide to the NEM: What was the question again?* Discussion Paper: Maddocks Energy Signature Lunch, 7 August 2013, Sydney, Australia, p18.