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Contact Officer: Adrian Russell
Contact Phone: (02) 6243 1032

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Sarah Lau
Project Leader
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Lau

Review of Distribution Reliability Outcomes and Standards - Response to Issues Paper

The Australian Energy Regulator (AER) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) issues paper regarding the reliability standards that apply to Distribution Network Service Providers (DNSPs).

While the issues paper largely focuses on the NSW work stream of the review we consider that it would be useful at this stage to provide some overarching comments of relevance to the review as a whole. To the extent the shorter timeframe for the NSW work stream does not allow the comments to be considered, we would hope that they could be addressed in the broader national work stream.

The AER supports the review process, and the general approach outlined in the AEMC's issues paper. We note the importance of the review given the need for DNSPs to meet increasing reliability standards has been a key driver of capital expenditure forecasts included in recent revenue reset applications. As a number of stakeholders have noted, this has implications for electricity prices. We particularly welcome the AEMC's plans to review the extent to which consumers are willing to pay for higher levels of reliability. Such information will inform the AER's future work in reviewing the operation and incentive rates specified in its distribution service target performance incentive scheme.

From the AER's perspective another key consideration for the review is whether the reliability standards are clear and transparent. Clearly defined reliability standards for each connection point are required both to measure DNSP performance and to assess their expenditure proposals. Ambiguity in any reliability standard makes it easier for DNSPs to

justify a range of expenditure plans and makes it more difficult for the AER to review and challenge such proposals. Any ambiguity would also have broader implications for the AER's compliance and enforcement role, given reliability standards are referenced in provisions such as the regulatory test.

More broadly, clear reliability standards will aid in providing transparency around the regulatory investment test – transmission (RIT-T) processes and the proposed distribution (RIT-D) framework. Clear standards assist stakeholders, including proponents of non-network alternatives, to understand the drivers of projects subject to RIT-T/RIT-D assessment and may assist them in proposing alternative non-network solutions.

We note that a consistent national framework for reliability standards would be highly desirable. Such a framework has the potential to benefit a wide range of stakeholders by improving the clarity and transparency of the regulatory process.

In considering the appropriate framework for distribution reliability standards, the AER notes that it is supportive of a number of the recommendations that the AEMC has previously outlined in its Transmission Reliability Standards Review and considers that a framework for distribution could be modelled on similar principles. For example, a 'hybrid' framework could be considered, with a set of deterministic standards based on an economic assessment of the value of supply in a given zone (with zones within existing distribution areas) being set by a body independent of the distribution network owner.

We look forward to continuing to contribute to the AEMC's review as it progresses, including as the national work stream develops.

Yours sincerely



Chris Pattas
General Manager
Network Operations and Development