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John Pierce
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Australian Energy Market Commission
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Dear Mr Pierce, *John*

AEMC REVIEW OF THE NATIONAL FRAMEWORKS FOR TRANSMISSION AND DISTRIBUTION RELIABILITY - CONSULTATION PAPER

IPART welcomes the opportunity to comment on the Australian Energy Market Commissions' (AEMC) Consultation Paper on the proposed framework for setting reliability standards in the NEM.

Reliability standards are a significant driver of network capital investment. Reliability standards that do not represent 'value for money', or are overly prescriptive can mean that unnecessary capital investments are undertaken to meet these standards. This imposes higher costs on electricity users through higher prices and higher electricity bills.

The AEMC's proposed framework could assist governments in making more informed decisions on the appropriate level and structure of reliability standards over future regulatory periods, as well as assist network businesses in making more efficient network investments. This should provide for better outcomes for customers.

In particular, we support:

- ▼ setting reliability standards using a transparent framework that takes account of customers' willingness to pay; and
- ▼ specifying the standards for distribution networks through an outcome-based regime, allowing network businesses flexibility to deliver the standards at lower costs

Given the long lived nature of network assets we consider it important that any changes to reliability standards be implemented in a timely manner.

Reliability standards should be set using a transparent framework that takes account of customers' willingness to pay

We support the AEMC's proposal to create an economic advisor role to perform a cost-benefit analysis of various reliability scenarios. Reliability standards reflect judgements made on the community's behalf of the level of service (and associated costs) valued by the community. We consider an economic advisor could lead to more informed:

- ▼ understanding of the trade-off between the community expectations and the benefits they attach to the reliability of electricity supply, and the cost associated with this supply; and
- ▼ decision making (whether State Governments or the AER) on the appropriate level and structure of standards over future regulatory periods.

In undertaking the cost-benefit analysis we recommend undertaking customer engagement to help identify:

- ▼ the differences in how customer groups value reliability of supply;
- ▼ the extent they would be willing to pay for higher reliability levels through higher energy prices;
- ▼ alternatives for individual electricity users who place a very high value on reliability.¹

Reliability standards for distribution networks should be specified on an outcomes-basis regime

We support the AEMC's recommendation that distribution reliability measures be expressed in terms of performance targets (i.e., using an outcome-based approach).

We are concerned that the input-based approach that is currently applied in some jurisdictions does not necessarily allow the specified performance of the distribution network to be met at least costs. For example, currently the standards in NSW include requirements on how distribution businesses must plan their networks in addition to specifying performance targets, and there is evidence to suggest that these planning requirements may be driving investment in distribution networks.²

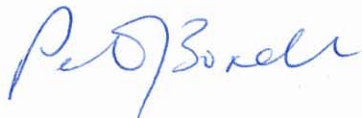
Moving towards an outcome based approach would provide distribution businesses a greater degree of flexibility to plan their networks, which could lead to more efficient investments and therefore better outcomes for customers.

¹ For example, some users (for example banks and hospitals) currently take their own measures to improve the quality of supply through uninterruptable supply equipment (UPS).

² The Brattle Group, *Approach to setting electricity distribution reliability standards and outcomes*, January 2012, p 13.

Please contact Alexis van der Weyden on 9290 8460 or Anna Brakey on 9290 8438 if you have any queries in relation to this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Peter J. Boxall'.

Peter J. Boxall, AO
Chairman