

25 January 2013

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



Dear Ms Lau

EPR0031 - Response to AEMC Draft Report - Review of Distribution Reliability Outcomes and Standards, National Workstream

Energex welcomes the opportunity to provide comments on the Australian Energy Market Commission's Draft Report relating to the Review of Distribution Reliability Outcomes and Standards, National Workstream. Energex provides this response as a Distribution Network Service Provider (DNSP) in South East Queensland.

Energex is generally supportive of the AEMC's view that there is merit in developing a nationally consistent framework for distribution reliability outcomes in the National Electricity Market (NEM). However, further development and consultation will be required on a number of aspects of the AEMC's proposed framework.

Attachment 1 sets out Energex's detailed comments on the questions raised in the Draft Report.

Energex looks forward to further contributing to developments in this area. If you require any further information please do not hesitate to contact Mr Mick Ryan, Regulatory Affairs Manager - Operations on (07) 3664 4125

Yours sincerely

A handwritten signature in blue ink, appearing to read 'L. Dwyer', is written over the printed name.

Louise Dwyer
Group Manager Regulatory Affairs

Attachment

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**Response to AEMC Draft Report – Review
of Distribution Reliability Outcomes and
Standards, National Workstream**

Energex Submission

25 January 2013

AEMC Review of Distribution Reliability Outcomes and Standards – National Workstream (DRAFT REPORT)

This attachment provides Energex's response to the series of questions posed by the Australian Energy Market Commission (AEMC) in their Draft Report – National Workstream, *Review of distribution reliability outcomes and standards*, released on 28 November 2012.

Question 1 Customer consultation and development of guidelines

What should be included in nationally consistent guidelines and which body should be responsible for their development?

Energex supports the AEMC's proposal for the development of a set of guidelines that outline the necessary details for the delivery of reliability outcomes. The guidelines should outline:

- The nationally consistent measures with definitions and methodologies, including segmentation and exclusion criteria to determine underlying performance;
- The methodologies for the economic assessment process used for setting jurisdictional targets, including the methods for quantifying the probability of exceedance criteria upon which the targets could be based;
- The customer consultation processes to be undertaken by distributors; and
- Reporting frameworks to be adopted by DNSPs

While Energex supports an independent body developing the guidelines, Energex considers that the body responsible will need to seek expert assistance and actively consult with DNSPs and the Energy Networks Association (ENA).

Question 2 Customer consultation

What are the important elements of customer consultation and what types of issues should customers be consulted on as part of the process of setting output reliability targets? Should customer consultation consider whether additional measures are warranted to inform customers of planned and unplanned interruptions?

Energex considers that customer consultation should be aimed at understanding and gauging customers' satisfaction with existing levels of reliability and the aspects of reliability that would interest them in the future. Customer preferences as an input to target setting should be sought on the following aspects as a minimum:

- Duration versus frequency of interruptions
- Momentary versus sustained interruptions
- Planned versus unplanned interruptions
- Probability of exceeding target criteria

Energex recommends that customer consultation should also consider the value that customers place on increased communication in relation to power interruptions. This would enable DNSPs to make more informed decisions when evaluating the benefits of implementing potentially costly communication systems. Energex supports the view that it is not appropriate to mandate improved customer communication unless clear benefits are demonstrated.

Energex considers as part of the target setting process, customer consultation should include communicating to customers on what they are committing to ie the trade-offs between prices and service.

Question 3 Economic assessment process

What are the relevant considerations for the development of a nationally consistent economic assessment process?

Energex notes that the economic assessment process relies heavily on determining a reasonable estimate of the value of customer and community reliability. Energex is concerned that these estimates may not be sufficiently robust to support the intended aims. Determining a reasonable estimate of the value of customer reliability or willingness to pay will be a highly contentious and complex issue. Energex believes further work will be required on this issue when developing the best practise framework.

Question 4 Worst served customers

Should the jurisdictional target setter have flexibility in setting additional obligations for worst served customers?

Are there any other considerations that should be taken into account in addressing worst served customers?

What are the costs and benefits of imposing a nationally consistent GSL scheme?

Energex is generally supportive of the jurisdictional target setter having the flexibility in setting requirements for worst served customers. This will require careful consideration of the measures and their definitions as set out in national guidelines, including exclusion criteria.

Addressing the reliability issues for customers in the worst performing parts of the network will in most instances be material, with costs outweighing the benefits of improved reliability for customers. Averaged reliability targets incentivise DNSPs to focus on the parts of the network that allow the DNSPs to cost effectively meet the average targets and not necessarily the reliability in the poorest performing parts of the network. Energex considers that worst served customers initiatives should appropriately recognise that all customers are required to contribute to the costs of addressing the limitations in the worst performing parts of the network.

Energex considers the type of customer and locational factors to be important considerations in addressing worst served customers. This may be addressed through appropriate segmentation of the measures.

There may be merit in adopting a national defined GSL scheme to address worst served customers. This would be an alternative to measures that focus on worst performing feeders. GSL payments based on individual customer measures of frequency and duration of interruption are more meaningful to customers than current 'averaged' measures i.e. SAIDI, SAIFI etc.

Question 5 Consistent definitions and exclusions

What issues would arise from adopting a consistent set of definitions and exclusions for the development of output reliability targets across NEM jurisdictions?

Does the publication of unplanned SAIDI and SAIFI as a minimum provide a sufficient level of consistency for the purposes of benchmarking?

The adoption of consistent definitions and exclusions for reliability measures would improve transparency and allow the underlying performance of DNSPs to be more easily understood. Energex considers that there will be issues around how easily the national consistent measures are able to be integrated into DNSPs reporting systems. It is important to have sufficient detail and clarity in the definitions to avoid uncertainty in interpreting measures. There must also be clear methodologies for determining relevant parameters

Energex generally supports publication of unplanned SAIDI and SAIFI for comparative purposes to inform the NEM of the average experience of customers and the emergence of any trends over a suitable time period. Due to the statistical nature of reliability outcomes, these averages should be reported with exclusion events removed to provide some normalisation of the results. However, Energex is concerned that even with exclusion events removed, jurisdictional differences in weather and network characteristics will lead to misleading assessment when comparisons are made between DNSPs. For comparisons to be improved and still kept simple, further segmentation would be desirable based on feeder type and weather (eg storm and non-storm). Energex believes reliable benchmarking would need to account for influential factors such as the ratio of overhead to underground length of network; switching capability for restoration after faults, etc.

Energex is also concerned that benchmarking of DNSP reliability performance across the NEM could lead to flawed assessments of DNSP costs. An assessment of efficient investment needs to be primarily based on the individual DNSPs network performance, reliability improvement trajectory, environment and network characteristics, i.e. the circumstances of the DNSP.

Question 6 Applying consistency across jurisdictions

Does the proposed framework provide sufficient flexibility to meet the specific locational characteristics of individual jurisdictions while achieving the benefits of national consistency?

Energex considers the framework provides sufficient flexibility by allowing for segmentation (by feeder type); allowing for targets to be set for the individual jurisdiction; and allowing for additional measures that may be required to accommodate specific locational factors.

Question 7 Process controls and performance safeguards

To what extent should there be an obligation on DNSPs to meet their reliability targets in any given year?

What options are available to provide confidence that DNSPs are seeking to meet the output reliability targets on average?

Energex agrees that a requirement to strictly comply with reliability targets in any given year will result in inefficient expenditure and higher costs for customers in the long run, if DNSPs are 'forced' to ensure that targets are consistently met.

Energex considers a probabilistic approach is required when setting reliability targets, as reliability outcomes will vary from year to year and location to location due to stochastic variations. The degree of temporal and spatial variation can decrease over regulatory time periods due to investment (capital and operating) but will not be eliminated. Variations due to weather (eg wind events and thunderstorm events) can have longer cycle times than a regulatory period of 5 years. It is very important that this variation is recognised in the target setting process.

Energex currently sets its performance targets to ensure it meets its jurisdictional minimum service standards (MSS) measures 90% of the time or with a 10% probability of exceedance. Currently two measures (SAIDI and SAIFI) apply to Energex for each of three feeder types i.e. CBD, Urban and Rural. Given the co-dependence between measures and differences in variability, the probability of meeting all 6 targets in any year is around 60%. This is based a Monte Carlo simulation of 5 years historical data simulated to the equivalent of 5000 years. Further, the probability of any one or more of the six measures not meeting target is 40% ; two or more of the measures not meeting target is 15%; three or more of the measures not meeting target is 5%. Energex considers this highlights the need that the guidelines proposed as part of the framework should include methodologies to address variability to ensure consistency of application across the NEM.

Energex also considers it necessary to recognise that investment to improve reliability will also be subject to statistical outcomes. Project benefits (outcomes) are usually based on a single point estimate of 50% probability. There is also a potential lag before benefits are realised due to the timing of the investments with respect to the year of reporting.

Given the preceding discussion on variability, Energex considers that DNSPs need to be left to manage the reliability outcomes once the targets have been appropriately set. Further, it is proposed that the probability of exceedance planning levels should be nominated in the national guidelines.

Question 8 Enforcement and incentives

What jurisdictional compliance obligations should apply?

Are there any further considerations that should be taken into account in the implementation of a nationally consistent incentives scheme?

Energex supports the current requirements to independently audit the reported reliability figures and their supporting processes. Energex also supports incentivising DNSPs to meet reliability targets and the proposal to have the targets set by a jurisdictional target setter to ensure consistency of reliability outcomes.

Energex considers that the process for setting the jurisdictional targets prior to a 5 year regulatory reset should be sufficiently transparent so as not to require any ongoing additional auditing of so called process controls or safeguards (associated with investment planning processes) during the regulatory period. Energex considers requirements for process controls and safeguards auditing add little value and are an unnecessary regulatory burden. Energex believes it is best left to the DNSP to explain performance outcomes and trends to the regulator in the normal course of reporting. Energex notes that in the current Regulatory Information Notice issued by the AER on the 28 September 2012, Energex is required to explain all material differences between the target performance measures specified in the STPIS and actual performance reported.

Energex considers that the value of customer reliability upon which the economic assessment for jurisdictional target setting is based should be consistent with the VCR used in the STPIS incentive rates.

Question 9 Reporting

What are the important considerations for reporting on performance against reliability targets?

As previously mentioned, Energex supports the requirement to have reported reliability figures and underlying reporting processes and systems to be independently audited. This is consistent with current requirements on DNSPs. Auditing would ensure that reported performance against set targets is consistent with the definitions and exclusion criteria in the national guidelines. However, the implementation and auditing of process controls and performance safeguards is an unnecessary obligation. Alternatively, DNSPs could be required to report and explain performance and trends in reliability outcomes.

Energex considers it is important to be transparent in reporting on its investment plans aimed at achieving the targets however it considers it would be overly intrusive to also audit the investment decision making process.

Energex remains concerned with the potential use of reported figures for benchmarking purposes. While public reporting will allow customers to better understand trends and the underlying performance of DNSPs across the NEM, Energex does not believe that the reported reliability figures automatically enable benchmarking. Locational factors and differences in network characteristics mean attempts to benchmark DNSPs reliability outcomes will lead to misleading comparisons.

Energex considers the main benefit in a nationally consistent framework is the greater degree of confidence that DNSPs are measuring the right things correctly and accurately across the NEM.

Question 10 Implementation considerations

Are there any further implementation considerations which should be taken into account in the development of a nationally consistent framework?

Energex considers the timing for the commencement of framework in a particular jurisdiction is an important consideration and would be dependent on where they are in their current regulatory cycle.