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29 June 2012

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

Dear Mr Pierce

Review of Distribution Reliability Outcomes and Standards – NSW Workstream

The Australian Energy Regulator (AER) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft report regarding the NSW workstream of the review into the reliability standards that apply to Distribution Network Service Providers (DNSPs).

The AER supports this review and in particular the study of consumer willingness to pay for reliability. Ultimately, it is important that consumers make the decision on the level of reliability that they are prepared to fund through electricity prices. While the AER does not have a particular view on the appropriate level of reliability, the results of the study do indicate that some relaxation of the current standards is required to bring them into line with community expectations.

It is also noteworthy that the AEMC has calculated the value of customer reliability (VCR) for NSW at \$94,990/MWh, on average. This is significantly higher than the current Victorian average VCR of \$57,880/MWh, which was based on a 2007 survey and which has been used to set relevant incentive rates in the Service Target Performance Incentive Scheme (STPIS). To the extent these VCR rates are shown to be more reflective of VCR rates across the NEM, it would be expected these will be reflected in the STPIS in the future.

The AEMC has noted that the annual cost savings per customer from a reduction in the reliability standards are modest, even for the scenario with the biggest reduction in the standards. The AER expects that this is due to the majority of the expenditure associated

with meeting the higher standard already being committed. However, the AER cautions against seeing this as a reason for not adopting a revised standard as it is important that over the medium to longer term reliability standards continue to be based on robust assessment of the value of the load at risk, community expectations and their willingness to pay.

To some degree the 'lumpy' nature of network investment tends to introduce a cyclical effect to the pattern of investment. Accordingly, it is important that as the network capacity is used and a further round of network investment is required to meet demand, the reliability standards continue to be an accurate reflection of community expectations. So while the numbers may be modest for now, the longer term importance of the reliability standards should not be underestimated.

To that end, the AER looks forward to engaging in the national workstream of the AEMC's review of reliability standards that apply to DNSPs. While, the AER understands that the form of the reliability standard is outside of the scope of the AEMC's work in the NSW workstream, this issue will be an important consideration for the national review.

As we will highlight as part of our submission to the review of the national framework, the AER considers a consistent national framework would be highly desirable. Such a framework should appropriately reflect consumer views about the level of reliability that they are willing to fund.

If you or your staff would like to discuss this issue, please contact either myself on 03 9290 1422 or Adrian Russell on 02 6243 1032. The AER looks forward to working with the AEMC as the review of the national framework develops.

Yours sincerely



Andrew Reeves
Chairman