



12 August 2013

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

Via www.aemc.gov.au

Dear Mr Pierce,

Review of the National Framework for Network Reliability

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (AEMC) consultation paper: *Review of the national frameworks for transmission and distribution reliability*.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and a growing customer base of over 700,000.

Alinta Energy broadly supports the proposed National Framework

In broad terms, Alinta Energy supports the national framework for distribution and transmission reliability targets and standards as a common arrangement aimed at reducing regulatory burden, increasing efficient investments and increasing joint planning between transmission and distribution networks.

Alinta Energy considers that where similar elements of transmission and distribution reliability frameworks can be restructured collectively this is a positive outcome which will provide procedural efficiencies. Correspondingly, given some elements of distribution and transmission networks are often inherently diverse it is appropriate to address these differences separately.

Apart from the minor considerations outlined below, Alinta Energy considers the proposed framework will provide consistency in reliability standards and targets as well as provide regulatory authorities an improved benchmark against which to assess and report on reliability standards consistently, positively contributing to the National Electricity Objective (NEO).

Challenges, approach and principles

As correctly identified by the AEMC, transmission and distribution reliability standards currently remain an area of jurisdictional responsibility and current assessment methods differ between jurisdictions, making reform challenging.

For example, currently Victorian reliability standards are not determined prior to network investments, whilst in other jurisdictions reliability standards are considered prior to network investments and are fixed for a given period of time.

Alinta Energy notes the AEMC's preference in setting reliability standards and targets using an economic assessment process in advance of investment. Building upon this framework appears a practical approach.

Likewise, the development of guiding principles, applying to transmission and distribution frameworks, provides a suitable path forward, consistent with the NEO. Alinta Energy notes the development frameworks contain the following principles:

- transparency;
- fit for purpose and reflective of customer preferences;
- economic efficiency;
- governance; and
- effectiveness.

Alinta Energy believes the AEMC has correctly identified several challenges which exist in developing consistent national reliability frameworks, as well as outlining suitable pathways forward. As such, Alinta Energy considers the benefits of reform in this area outweigh the obstructions present.

Expression of distribution reliability targets and transmission standards

Distribution networks

Alinta Energy notes the proposed framework assesses distribution reliability based on an outputs approach, removing the input planning standards and replacing them with reliability targets which specify the level of service network providers will be financially incentivised to meet.

Alinta Energy agrees with the AEMC's assessment that reliability targets will allow Distribution Network Service Provider's to determine the most cost efficient way in which to meet the targets, promoting innovation and encouraging the use of non-network solutions.

In order to encourage consistency in setting distribution reliability targets, as well as establishing a benchmark for success, Alinta Energy supports the development of a national distribution reference standard template by the Australian Energy Regulator (AER). Such a template will establish a benchmark to measure progress as well as to compare different reliability outcomes between jurisdictions.

Alinta Energy supports the standard setter taking localised customer consultations into account when determining reliability targets. Similarly, the provision that jurisdictional energy ministers retain the discretion to request additional reliability measures to ensure specific customers are catered for remains appropriate.

Transmission networks

Alinta Energy notes that transmission networks will retain a standard, as opposed to reliability targets, given the various complications involved in developing output based standards for transmission networks. As such, the proposed N-x standard seems a practical proposal.

Alinta Energy agrees with the AEMC's assessment that additional parameters such as customer preferences could inform the reliability standard. Given the Australian Energy Market Operators' (AEMO) role and experience as the National Transmission Planner, it seems appropriate that AEMO is responsible for consulting on and developing the national transmission reference standard template and the parameters that will inform it.

Alinta Energy suggests AEMO engage in additional consultation as needed; with transmission network service providers whom are well placed to comment on the suitability of what "menu" of parameters could be included in the improved standard.

Structure of the standard setting process and associated change in responsibilities

Alinta Energy notes the proposed structure of the standard setting process will consist of three stages:

- 1) the process of selecting a range of feasible reliability scenarios;
- 2) economic assessment processes which assess the costs and benefits of each scenario; and
- 3) process of selecting and publishing the reliability standards or targets for each network service provider (NSP).

In general, Alinta Energy considers the proposed standard setting structure will increase transparency in the market place through the provision of information on the cost and reliability impacts associated with meeting each proposed reliability scenario and whether an orderly transition is required to meet a new standard or target.

Secondly, Alinta Energy agrees with the AEMC's assessment that the proposed structure will assist the AER, in its role as the economic regulator, in determining appropriate NSP revenue as well as ensuring compliance with set reliability targets and standards.

Alinta Energy is encouraged to see the responsibility of setting network standards and targets are to remain at the discretion of the jurisdictional energy minister. If the minister chooses to delegate the standard and target setting role to a third party such as the AER, that is their prerogative.

If the minister does choose to delegate the role to a third party, then providing associated directions on how to determine the standard, such as consulting the Value of Customer Reliability (VCR) or similar requirements, seems prudent. Not doing so effectively obligates the AER to select the scenario with the highest net benefit, as determined through the economic assessment process, whilst being unable to take other considerations into account.

To summarise: Alinta Energy supports the proposed structure of the standard and target setting process, and supports voluntary changes in institutional arrangements in determining reliability targets and standards.

Relationship with the VCR

Alinta Energy has contributed to ongoing AEMO consultations regarding the development of a nationally consistent VCR for use across the NEM.

The successful implementation of the proposed frameworks in part depends upon the successful use of a robust VCR. As such, Alinta Energy is encouraged to learn the AEMC is liaising with AEMO in the development of the VCR, and how it will be applied to the proposed framework.

Alinta Energy notes the proposal that the AER, in its role as the economic regulator, be the body responsible for determining appropriate VCR's for each jurisdiction as well as refining the present methodology used. Alinta Energy understands such a task could include comprehensively updating the VCR every five years, as well as benchmarking the VCR against the Consumer Price Index.

Alinta Energy supports this approach and calls on AEMO and the AER to collectively engage in the current VCR development process.

Customer consultation and selection of reliability scenarios

Alinta Energy supports cooperation and consultation between the standard setter, the economic adviser, the NSP and customers in selecting reliability scenarios.

Such collaboration, especially customer engagement, informs the standard setter of localised preferences and assists in the setting of standards and targets, which accurately reflect the features of that particular area of the network.

Economic assessment of reliability scenarios

In order to benchmark progress, Alinta Energy supports a cost benefit analysis of each reliability scenario being transposed against the baseline of maintaining existing reliability scenarios.

Alinta Energy understands the proposed economic assessment will not be a substitute for the AER's revenue determination process and that the economic assessment will be presented for public consultation prior to the release of the final report.

Such measures are positive developments in informing stakeholders of the costs associated with meeting each proposed reliability standard or target. Alinta Energy supports such measures, as a method of increasing transparency.

Implications for the revenue determination process and updating reliability standards and targets

Alinta Energy supports the proposed connection between the revenue determination processes and updating the reliability standard and targets. Alinta Energy considers such a proposal will have a two pronged benefit.

Firstly, administrative benefits will be achieved by reducing the duplication in customer consultation processes by merging the standard and target setting consultation with the network revenue determination consultation.

Secondary benefits will be achieved through linking NSP's forecast expenditure required to meet the new network standards or targets. This linkage will benefit the AER in assessing the appropriate revenues required to deliver meeting the new reliability standard or target.

The provision to allow NSP's to amend their reliability standards or targets based on material differences in assumptions which could emerge, provides stakeholders with certainty that if standards or targets are no longer efficient, they will be updated accordingly.

Alinta Energy supports the AEMC's work in this area, and the efficiency gains the joint process will provide.

Conclusion

Should you have any queries in relation to this submission, please do not hesitate to contact me on, telephone, (02) 9372 2633, or Mr Anders Sangkuhl on, telephone, (02) 9375 0962.

Yours sincerely,



Jamie Lowe
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