

Mr Richard Owens
Director
Australian Energy Market Commission
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Email: submissions@aemc.gov.au

Dear Mr Owens

RE: EPR0027 - Review of distribution reliability outcomes and standards

1. Introduction and context

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) issues paper entitled "*Issues Paper – NSW Workstream Review of Distribution Reliability Outcomes and Standards*" (**Issues Paper**).

The Ministerial Council on Energy (**MCE**) has directed the AEMC to undertake a review of distribution reliability outcomes to ensure that:

there is an effective balance between ensuring sufficient investment in distribution networks to maintain reliability and pricing outcomes for customers.¹

The MCE has directed that the review be undertaken in two separate workstreams being the New South Wales (**NSW**) and the national workstreams.

The Issues Paper starts the first stage of the NSW workstream and invites comment on the AEMC's proposed scope and approach. The Businesses are commenting on the Issues Paper because of the potential flow on implications and precedent that this might create for distribution businesses in other jurisdictions.

The Businesses recognise the growing community concern regarding increasing household electricity prices and that distribution network service providers' (**DNSPs**) planning criteria and reliability standards (**performance standards**) have a direct relationship with their expenditure program and in turn their network prices.

To this end the Businesses welcome the AEMC's review of performance standards to:

- Enable the relationship between performance standards and prices to be better understood;

¹ MCE, letter to AEMC entitled :Australian Energy Market Commission (**AEMC**) Review of Distribution reliability standards, 20 August 2011, page 3

- Understand better the performance outcomes that customers indicate that they want and are willing to pay for;
- Explore the merits of the different ways in which performance standards can apply to DNSPs; and
- Understand better the importance of setting performance standards that are quantifiable so that the DNSPs and regulators can assess whether or not specified standards have been achieved.

Section 2 of this submission addresses the AEMC's questions on the NSW workstream and section 3 provides comments on the national workstream.

2. NSW workstream

The objective of the NSW workstream is to provide advice to the NSW Government on the cost and benefits of alternative outcomes or levels of distribution reliability in NSW.

The MCE has specified that the AEMC's review should address matters listed in sections 2.1 to 2.6 below. The Businesses have outlined their positions on the AEMC's proposed approach to addressing each of these matters and has addressed certain of the AEMC's questions.

2.1. *Best practice national and international performance standards?*

The MCE has requested the AEMC to consider best practice national and international performance outcomes as part of this review.

The Businesses support a national and international review of performance standards including:

- Planning criteria – this should include a review of:
 - The nature of the different types of planning criteria, including probabilistic, deterministic and combinations of the two;
 - The effectiveness of different types of planning criteria in achieving their intended outcomes;
 - Why different planning criteria apply in different areas or for different types of network assets (e.g. CBD, urban, rural);
 - Whether planning criteria are externally imposed or internally derived;
 - The levels of the planning criteria applied in each jurisdiction;
 - The rationale for changing planning criteria over time; and
 - Whether and how the application of the planning criteria is monitored and enforced.
- Reliability standards – this should include a review of:
 - How the reliability standards are set;
 - On what basis reliability standards are determined;
 - Why different reliability standards apply in different areas or for different types of network assets (e.g. CBD, urban, rural). This should consider the application of minimum and average standards;
 - The levels of the reliability standards applied in each jurisdiction;
 - The rationale for changing reliability standards over time;
 - How the application of the reliability standards is monitored and enforced;

- The financial and other incentives arrangements that are used to encourage distributors to meet these reliability standards.

2.2. Whether the current standards in the NSW licence conditions remain appropriate

The Businesses note that the current NSW performance standards were only introduced, through licence conditions, in 2005 and were mandated by the NSW Government. The Businesses understand that these performance standards have required, and continue to require, significant investment in the distribution networks.

The Businesses caution against frequent changes to reliability standards, particularly where standards are externally imposed. This is because DNSPs are required to plan their networks and undertake investment in distribution infrastructure to meet these standards. Importantly, investment in distribution infrastructure is costly, requires appropriate lead time to identify the most efficient and prudent investment solution and is characterised by long lived assets.

This is applicable to all DNSPs across the National Electricity Market (**NEM**).

Any fundamental changes to performance standards should only be made on the basis of the following criteria:

- A rigorous cost benefit analysis that supports a need for change;
- There is a clear public consensus that change is required and customers want, and are willing to pay for, the new performance standards. This decision should be made in the context of understanding the direct relationship between DNSPs' performance standards and their expenditure programs and in turn their network prices;
- DNSPs are fully compensated for the investments that they made before the change takes place; and
- DNSPs are able to recover the costs of delivering against any new performance standards through their network charges.

2.3. Possible alternative scenarios for NSW distribution reliability outcomes

The Businesses think that it is sensible to consider alternative scenarios, and to understand the relative costs and benefits of each scenario, however the above criteria should still apply to any decision that is made.

The Businesses consider that any decisions around the alternative scenarios to be considered, is a matter for New South Wales to determine. The Businesses do not think that national consistency should be pursued for its own sake

2.4. To estimate the efficient cost of achieving alternative reliability outcomes

The Businesses would caution against over-simplifying any assessment of the relative costs (or cost savings) of alternative higher or lower performance standards and under-estimating the complexity for the NSW distributors of preparing expenditure forecasts that isolate out the expenditure attributable just to these performance standards.

The Businesses note that it typically takes a DNSP many months to prepare well justified expenditure forecast to the Australian Energy Regulator (**AER**) for the purposes of an electricity distribution price review and that the AER also takes several months to make its assessment and to form a view of the efficient expenditure.

The Businesses consider that the AEMC will need to be very clear about the basis on which it will require the NSW distributors to prepare their expenditure forecasts and also the basis on which it will assess these forecasts. The Businesses note that there are detailed requirements in Chapter 6 of the National Electricity Rules (**Rules**) which govern these matters for the purposes of electricity distribution price reviews.

2.5. Estimate the NSW customer willingness to pay

The Businesses recognise the value of understanding customers' willingness to pay and think that if there is a clear public consensus for targeting particular performance standards then Governments should take account of this provided that there is a recognition that DNSPs will seek to recover the costs of delivering against these performance standards through their network charges.

2.6. Cost benefit assessment of alternative reliability outcomes

The Businesses consider that any changes to the NSW performance standards is a matter for the NSW Government, which is responsible for determining performance standards under the Australian Energy Market Agreement (**AEMA**). As noted above, the Businesses consider that changes to performance standards should only be made on the basis of the following criteria:

- A rigorous cost benefit analysis that supports a need for change;
- There is a clear public consensus that change is required and customers want and are willing to pay for the new performance standards; and
- DNSPs are fully compensated for the investments that they made before the change takes place.

2.7. Other matters raised in the Issues Paper:

The Businesses agree with the AEMC that customer service standards should not be included within the scope of this review as they are a separate issue to performance standards.

3. National workstream

The objective of this workstream is to develop a nationally consistent framework for expressing, delivering, and reporting on performance standards across the NEM.

The Businesses question whether achieving national consistency is a priority and do not think that national consistency should be pursued for its own sake. The Businesses also note that any future national framework will need to be agreed by all states and territories.

The Businesses look forward to providing detailed comments on the AEMC approach to undertaking this review, which will be set out in its Issues Paper to be published in July 2012.

4. Closing

Please do not hesitate to contact Stephanie McDougall, Manager Regulatory Projects, on (03) 9683 4518 or smcdougall@powercor.com.au if you would like to discuss the positions presented in this submission or have any questions regarding this submission.

Yours sincerely



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