



A national approach to distribution reliability

Advice on high level features for a national framework for distribution reliability outcomes.

In response to a request from the Standing Council on Energy and Resources (SCER), the Australian Energy Market Commission has published a draft report on whether there is merit in a national framework for distribution reliability outcomes. This report sets out high level features of a framework which could deliver efficient and effective reliability outcomes across the National Electricity Market (NEM).

Purpose of this review

Electricity distribution systems are designed, built and operated to deliver a reliable supply of electricity to customers. Generally, the more reliable the supply customers receive, the higher the cost of building and maintaining these networks. Deciding on the level of reliability that networks should be built and maintained to involves making a trade-off between cost and reliability.

Each jurisdiction currently uses a different approach to set distribution reliability standards, which has contributed to differences in how distribution reliability outcomes are delivered, the level of reliability experienced by customers, and the costs of building and maintaining distribution networks across the NEM.

Benefits of a national framework for distribution reliability

A national framework for distribution reliability outcomes would provide a transparent approach for jurisdictions to set efficient reliability targets that take into account the costs of investments to deliver a reliable supply of electricity and the value that customers place on reliability.

It also has the potential to ensure flexible investment decision making by distribution businesses by replacing prescriptive input planning with an outputs-based approach.

A consistent way of expressing reliability targets and outcomes would also improve the Australian Energy Regulator's (AER's) ability to benchmark reliability performance and to determine efficient levels of expenditure to achieve reliability outcomes across different distribution businesses.

Proposed key features for a national framework

The AEMC has developed high level features for a national framework for distribution reliability outcomes, which we consider could deliver more efficient and effective reliability outcomes.

Under this framework, jurisdictions would retain responsibility for determining the level of reliability that should be provided by distribution businesses. However, reliability targets across the NEM would be set, delivered, and reported on under a national framework.

The AEMC considers that there is merit in a national framework for expressing, delivering and reporting on distribution reliability outcomes in the NEM.

The key features of the proposed framework are:

- An outputs-based approach that provides flexibility to distribution businesses to achieve efficient reliability outcomes by removing requirements to meet strict input planning standards that currently exist in some jurisdictions.
- Output reliability targets developed by each jurisdiction under a national economic assessment process and using a consistent set of definitions and exclusion criteria.
- Reliability targets set and approved by the relevant jurisdictional regulator or government, which take into account customer preferences and community needs and expectations.
- Flexibility for the relevant jurisdictional government to transfer responsibility to the AER for the setting of output reliability targets.
- An incentive system with material financial rewards and penalties to strengthen accountability and encourage distribution businesses to perform to the level of the output reliability targets.
- An allowance for additional measures to be included and evaluated on a cost-benefit basis to address the requirements of worst served customers.
- A nationally consistent framework for public reporting to allow for more accurate comparisons of performance across the NEM and a better understanding of the relationship between reliability performance and network expenditure.

Next steps

Submissions on the draft report will close on 25 January 2013.

We will develop our high level framework into a more detailed best practice framework that could be adopted by NEM jurisdictions, if requested to do so by the SCER. Any further advice would also include consideration of how best to implement a national framework across the NEM.

For information contact:

AEMC Senior Director, **Chris Spangaro** (02) 8296 7800

Media: Communication Manager, **Prudence Anderson** 0404 821 935 or (02) 8296 7817

28 November 2012