



Review of the national frameworks for network reliability

Publication of consultation paper

The AEMC has been requested to develop national frameworks for expressing, setting and reporting on electricity transmission and distribution reliability in the National Electricity Market (NEM).

The AEMC has published a paper for public consultation on a common set of arrangements for the frameworks. Stakeholder comments are requested by 9 August 2013.

Purpose of the review

Transmission and distribution networks facilitate the supply of electricity to end use customers from a system of generators within each region of the NEM and via interconnections with other regions. The level of reliability that transmission and distribution networks are required to provide affects the level of investment that these networks are required to undertake. This ultimately feeds through to the electricity prices paid by customers.

The AEMC has been requested to undertake this review by the Standing Council on Energy and Resources (SCER) as part of a broader package of energy market reforms agreed to by the Council of Australian Governments in late 2012. Under this review, the AEMC will develop national frameworks for expressing, setting, and reporting on transmission and distribution reliability in the NEM.

Features of the proposed frameworks for transmission and distribution reliability

There are a range of similar issues involved in developing effective frameworks for setting transmission and distribution reliability requirements. For these reasons, we have developed a common set of arrangements that would apply to both frameworks.

The Commission's proposed frameworks include the following features:

- the setting of required reliability levels based on a transparent economic assessment process, which exposes the way costs vary with different levels of reliability and compares the expected costs of investment against the value placed on reliability by customers;
- jurisdictional responsibility for determining the appropriate level of reliability, with the option to delegate responsibility to the Australian Energy Regulator (AER) or a jurisdictional body;
- the ability for jurisdictions to incorporate additional reliability requirements for areas of economic importance or to reflect community expectations (eg for customers in rural or remote areas);
- greater opportunities to consult with customers and consider community preferences;
- a mechanism to update reliability requirements during the regulatory control period to reflect updated information; and
- national reporting of network reliability performance.

The intention of the framework is not to result in a single harmonised level of reliability that will apply across the NEM. Rather, the focus is on how to implement effective frameworks for expressing, setting, and reporting on required reliability levels and outcomes.

Reliability levels would be set every five years under the national frameworks prior to each revenue reset. The AER would be required to determine revenues for each network business that are consistent with the efficient delivery of their required reliability levels over the regulatory period.

The explicit and transparent consideration of the value placed on reliability by customers, along with greater requirements for stakeholder consultation when reliability levels are set, are likely to ensure community preferences are taken into account.

Benefits of the proposed frameworks

The adoption of the proposed frameworks is likely to have a number of benefits for customers.

The frameworks will provide for a more economically efficient, transparent and robust methodology for setting reliability levels. This would allow the trade-off between the cost of investing in networks and the value placed on reliability to be more effectively considered. This could lead to more efficient investments by network businesses and electricity prices which are more consistent with the value that customers place on reliability.

The explicit and transparent consideration of the value placed on reliability by customers, along with greater requirements for stakeholder consultation when reliability levels are set, are likely to ensure community preferences are taken into account.

Setting reliability levels ahead of the need to invest would provide transparency and certainty to market participants regarding the level of reliability they will receive. This would allow network businesses to be held accountable for the reliability levels they provide.

Consistency in the expression of reliability levels across the NEM would allow the AER to better benchmark the performance of the network businesses and assist it to determine revenues that are consistent with the efficient delivery of their required reliability levels. It would also allow stakeholders to compare the performance of the network businesses.

Setting reliability levels under the frameworks

Reliability levels under the frameworks would be set by comparing the cost of investments against the value placed on reliability by customers. However, there are a range of uncertainties that exist around determining this trade-off. In particular, determining a consistent, reliable and accurate value of reliability has a number of difficulties.

Developing a methodology which can accurately assess the value of customer reliability is difficult because this value is inherently subjective. For instance, a customer's value of reliability may be affected by variables such as the time of day of an outage or when they last experienced an outage.

Determining reliability levels also involves a compromise between the values placed on reliability by individual customers, as a number of different customers with differing needs will be served by the same network assets. Therefore, the value of customer reliability needs to be averaged across a range of customers.

It can also be difficult to fully reflect in estimates of the value of reliability the needs of customers in areas with poor reliability levels, such as remote areas.

The AEMC's proposed frameworks will address these issues by:

- Requiring the AER to develop values of customer reliability for each jurisdiction every five years, which would allow the methodology to be improved over time; and
- Allowing jurisdictions to consider additional factors in setting reliability levels which may not be fully accounted for in a measure of the value of customer reliability. For instance, this could allow jurisdictions to consider the need for additional performance requirements for customers in areas with poor reliability levels.

Next steps for the review

Submissions will close on the consultation paper on 9 August 2013. After considering submissions, we will publish separate final reports on the distribution and transmission workstreams of the review.

The final report on the distribution workstream will be published by 27 September 2013. The final report on the transmission workstream will be published by 1 November 2013.

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