



9 August 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Lodged electronically.

Reference: EPR0028

Dear John

Thank you for the opportunity to make a submission on the AEMC's Draft Consultation Paper on the AEMC's Review of the national frameworks for transmission and distribution reliability.

The EUAA represents around 100 energy users in Australia. Our members account for a significant proportion of the electricity consumed in the National Electricity Market.

While we support some of the AEMC's proposals, on the main institutional questions and on the expression of the reliability standard we differ with the AEMC.

We are concerned that the AEMC has missed the opportunity to use this review to undertake an assessment of the relative merits of the transmission planning arrangements in Victoria, with those elsewhere in the National Electricity Market. While we understand that several jurisdictional energy Ministers may not have welcomed such inquiry, it seems to us that such inquiry is within the AEMC's terms of reference for this review, and it would have been consistent with the AEMC's statutory obligations to undertake such inquiry.

The EUAA's assessment is that there is compelling evidence that the Victorian arrangements have delivered far superior outcomes for electricity users in terms of price and reliability of supply. We have provided evidence for this in the research we published in 2012.¹ The Productivity Commission came to the same conclusion that we did and recommended the

¹ CME, November 2012. "A comparison of outcomes delivered by electricity transmission network service providers in the National Electricity Market: A report for the Energy Users Association of Australia."

extension of the Victorian arrangements elsewhere in the NEM. We fully support the Productivity Commission's recommendations and are therefore disappointed that the AEMC has ignored this, without explanation or indeed any evidence that the AEMC has evaluated the Productivity Commission's proposals.

We are also disappointed in the AEMC's suggestion that transmission-planning standards should be stated in deterministic (N-x) terms. Again the superiority of the Victorian probabilistic arrangements – in terms of delivery of the long-term interest of consumers - is compelling. If the AEMC disagrees with this assessment, it would be valuable to understand why.

In the absence of such contrary assessment, we call on the AEMC to reconsider this recommendation and instead investigate the adoption of the Victorian probabilistic expression for all transmission network service providers in the NEM. In particular, we refer the AEMC to the submission by AEMO and its excellent accompanying report by Nuttall Consulting on how an Expected Energy Net Served (EENS) metric should be calculated. The AEMC's consultation paper provides no evidence that it has considered AEMO's proposals.

In the Attachment we respond to the questions in the AEMC's Consultation Paper in the order that they are presented.

Yours sincerely

Phil Baressi
CHIEF EXECUTIVE OFFICER

ATTACHMENT

Area 1: Expression of distribution and transmission reliability targets

Distribution

The AEMC has proposed the specification of a number of output based reliability measures to be measured and report by feeder type. The AER will be tasked with developing the templates for this.

We support the AEMC's approach on this.

Question 1 Expression of distribution reliability targets

(a) Does the proposed removal of input planning standards for distribution networks compromise the ability to deal with high impact low probability events such as city wide supply interruptions?

We don't think so.

(b) Does the expression of distribution reliability measures by feeder type accommodate the specific locational characteristics of individual jurisdictions while achieving the benefits of national consistency?

Yes.

(c) Is it possible to achieve consistency in the definitions of distribution reliability measures across the NEM, including consistency in exclusion criteria?

Yes.

(d) Is the AER the appropriate body to be responsible for developing the national reference standard template for distribution? If not, which body should be responsible for this task?

Yes.

Transmission

The AEMC has proposed that transmission planning standards be economically derived and then stated in terms of engineering redundancy ("N-x") as well as other details to be specified in a "national reference standard template" that AEMO will be tasked with developing.

The AEMC's justification for engineering redundancy expressions of transmission reliability is because it is difficult to develop output-based standards.

We disagree with the AEMC's proposals. A deterministically stated, but economically derived planning standard is a non-sequitur. The whole essence of an economically derived planning standard is that it is probabilistic, not deterministic. To describe a probabilistic analysis in deterministic terms is to mis-describe. This is reflected in the AEMC's further clarification that the description that its proposal will deliver is not actually "N-x" but rather a "national reference standard template" which will take the form of an "N-x" label but then qualified by parameters such as load at risk, maximum restoration times and so on (what Grid Australia calls a "menu" of reliability standards). In other words, to be clear, what the AEMC has proposed is in fact far from a nationally consistent and comparable statement of TNSP reliability.

There is an alternative. This is set out comprehensively in the report “Electricity transmission reliability measures: Review of options and concept design” by Nuttall Consulting. This report was made available to the AEMC as part of the AEMO’s submission on the AEMC’s Issues Paper.

The Nuttall report describes the calculation of a measure – Expected Energy Not Supplied (EENS) – and compares this measure to alternatives. EENS is the essence of the approach used by AEMO in planning network augmentations in Victoria over the last 15 years. It has evidently worked well.

The transmission planning tool, PSS®E, own by Siemens and used by all TNSPs in Australia incorporates probabilistic reliability assessment feature, and provides a simple process for obtaining un-served energy indices.

The EUAA is very concerned that the AEMC appears to have ignored AEMO’s submission and Nuttall’s report, and as such appears to have failed to consider the use of EENS as a suitable output-based index for the expression of transmission reliability by TNSPs (and indeed as a basis to their investment planning). We call on the AEMC to revisit its recommendation for a deterministic expression of transmission reliability, and to consider carefully the evidence and argument provided by AEMO and Nuttall Consulting.

Question 2 Expression of transmission reliability standards

(a) What would be the effect of expressing transmission reliability standards on an N-x basis and complementing this with the inclusion of additional parameters?

We do not support the use of deterministic expressions of transmission reliability. Our text above refers.

(b) Is AEMO the appropriate body to be responsible for developing the national reference standard template for transmission? If not, which body should be responsible for this task?

We support AEMO’s role in setting nationally consistent transmission reliability standards. But this does not mean tasking AEMO to set an “n-x” based template.

Area 2: Structure of the standard setting process

The AEMC’s main proposals here are that:

- The AER will set guidelines for the economic assessment of planning standards and will also determine the Value of Customer Reliability.
- Reliability scenarios are to be generated by NSPs, economically assessed by AER or AEMO or the jurisdictional government or some other body.
- Reliability standards are to be set by the jurisdictional energy minister who can choose to delegate them to the AER or to the jurisdictional regulator.

Our response to this is as follows:

1. The principles of economic assessment of network investment are well established and so why a guideline on this needs to be written is not clear to us. We find it difficult to see how the additional bureaucracy that will result from the creation of guidelines, and their subsequent enforcement, will add value.
2. Our preference is that AEMO is made responsible for developing estimates of the Value of Customer Reliability. AEMO has a long track record of setting VCR and are undertaking significant work at the moment to develop insights into it. The AER by contrast has no experience in it. AEMO has deeper transmission economics expertise than the AER and on this basis is better placed to make an informed assessment of VCR.

3. We do not support a role for the AER in the economic assessment of NSP reliability scenarios. Such assessment by the AER will fetter the AER's discretion in determining regulatory expenditure allowances (because the AER will be implicitly constrained by its own economic assessment of reliability investments).
4. We also do not support the role of jurisdictional bodies in the economic assessment of transmission planning scenarios. This is because they have no expertise in this field.
5. We do support AEMO's role in the economic assessment of NSP reliability scenarios. AEMO has extensive experience in this, has the technical expertise in transmission planning and transmission economics and has a far greater level of independence from state governments than either jurisdictional regulators or the AER.
6. Jurisdictional governments can delegate their authorities as they wish. However we do not support a delegation of the task of setting planning standards to the AER. This is because such delegation will fetter the AER's discretion in setting regulatory expenditure controls.

Question 3

(a) Is the proposed timeframe for undertaking the standard setting process able to be achieved in practice?

Yes.

(b) Are there any specific jurisdictional arrangements that would need to be considered in adopting the proposed frameworks, including how the responsibilities could be allocated?

Our response to this is encompassed in our points above.

Question 4

(a) Which aspects of the proposed frameworks should be covered in the economic assessment process guidelines?

Our response above, questions the value of establishing economic assessment process guidelines.

(b) Is the AER the appropriate body to develop the guidelines, in light of its other roles under the proposed frameworks? If not, which body should be responsible for this task?

Our response above suggested AEMO should set the guidelines.

(c) Is the AER the appropriate body to be responsible for updates to the VCR? If not, which body should be responsible for this task? Should the CPI be used to escalate VCRs each year?

Our response above suggested AEMO should set the VCR. We do not support CPI indexation of VCR.

Area 3: Customer consultation

The AEMC has proposed three months for initial consultation with customers. The purpose of this is *“to determine which aspects of reliability are particularly important for customers in their transmission or distribution networks.”*

We support much greater involvement of energy users in the economic regulation of the electricity sector. We have long argued this, and there is now widespread support for this, including from the industry.

Our assessment is that the AEMC’s proposal for consumer consultation needs to be significantly expanded. Consumers are unable to provide an informed answer to the question “which aspects of reliability are particularly important” unless there is some understanding of the price to be paid for that reliability. The relevant question is “how much are you prepared to pay for a more reliable supply for yourself and your neighbour”?

To rectify this shortfall in the AEMC’s proposals, we therefore suggest that “customer consultation” should occur at the start of the process, and also after the economic assessment and then again in the setting of standards. We suggest that throughout the process there needs to be organised and effective engagement, not just a passive invitation to consumer groups to make a submission to a report.

Question 5 Customer consultation and selection of reliability Scenarios

(a) How should the customer consultation process be conducted to provide sufficient information to the standard setter to make an informed decision on the selection of a range of reliability scenarios?

The most important issue is to ask the right question: simply asking consumers if they value reliable networks will illicit a positive response, but this has no meaning. The relevant issue is to understand what they energy users are willing to pay for reliability. Obtaining a sensible and well-informed answer to this question demands effective consumer engagement in all aspects of the process.

(b) Should limits or constraints be placed on the discretion that the standard setter has regarding the selection of reliability scenarios?

No. Jurisdictional governments have a constitutional right to regulate electricity within their jurisdictions. We do not believe the AEMC or any other entity has the right to limit their discretion. Rather, transparency is the key issue: if the standard setter (the jurisdictional government or the body that it delegates this task to) makes a decision that is contrary to the economic advice, or what consumers have said they are willing to pay, the key is to ensure that this is clear, so that the “blame” for consequential price rises (or unreliable supply) can be fairly attributed.

(c) Should the evaluation of measures to address worst served customers for DNSPs be included in the economic assessment process?

Yes.

Area 4: Setting reliability standards

The AEMC’s proposals focus mainly on the timing and various other obligations to be placed on the jurisdictional energy minister (or the body it delegates to). We support the AEMC’s encouragement for transparency.

Question 7 Does the Commission’s proposed approach provide sufficient information to the jurisdictional minister to allow the minister to make an informed decision on the levels of reliability that appropriately meets community expectations?

Yes.

Area 5: Links between the standard setting process and the revenue determination process

The AEMC proposes that the standard setting process should precede the revenue determination process. We agree with this

Question 8

(a) Should NSPs be required to align the consultation process at the commencement of the standard setting process with their consultation process on their regulatory proposal? Is this feasible and what costs or benefits may arise under this approach?

We can see no reason why it would not be feasible.

(b) What factors should the AER consider in taking into account any differences in the cost forecasts submitted during the standard setting process and in a NSP's regulatory proposal?

If an NSP provides one set of data for the purpose of setting standards and another in its revenue determination, there need to be very good reasons for this, and NSPs should be asked to explain them.