



## Review of distribution reliability outcomes and standards

### Issues paper on the reliability of NSW distribution networks

**This review will deliver advice on the extent to which the level of investment in distribution networks reflects customers' willingness to pay for reliability.**

#### What is the review of distribution reliability outcomes and standards?

The Ministerial Council on Energy (MCE) has asked the AEMC to review the costs and benefits of different levels of reliability in the New South Wales (NSW) electricity distribution system.

The MCE has also asked us to review approaches to setting reliability in the National Electricity Market (NEM) distribution networks. The review will be conducted in two parts – starting with the New South Wales workstream, and concluding with a national workstream.

#### New South Wales workstream

Distribution network investment has been a significant contributor to rising electricity bills in NSW in recent years. Improvements to distribution reliability outcomes have driven some of this investment.

New licence conditions for the NSW distribution businesses were introduced by the state government in 2005. These conditions required distribution network upgrades to meet improved distribution reliability outcomes. The capital expenditure program to meet the improved outcomes is already underway and is expected to be completed by June 2014. The costs of meeting the 2005 licence conditions will be included in the prices for customers until June 2014 (the final year in the current regulatory period).

Looking ahead, this part of the review's work will provide advice on the costs and benefits of alternatives for future distribution reliability outcomes. These outcomes are likely to impact the level of distribution investment and prices in NSW over the long term. We are seeking views from the NSW community, and we will be undertaking a customer survey to inform our analysis of the costs and benefits of different levels of future reliability.

This advice will be considered by the NSW Government who will decide if any changes to the NSW distribution reliability outcomes are required.

#### Call for submissions on the NSW workstream issues paper

Today we released an issues paper for consultation which starts the NSW workstream. Submissions are due by 1 December 2011.

#### National workstream

Distribution reliability outcomes in the National Electricity Market (NEM) are currently set separately by each jurisdiction. The objective of the national workstream is to analyse the different approaches to setting distribution reliability outcomes across the NEM.

We will then consider if there is merit in developing a nationally consistent framework for expressing, delivering, and reporting on distribution reliability outcomes. If requested by the MCE we will then develop a best practice framework that could be adopted by the NEM jurisdictions.

**The NSW Government will use this advice to consider whether distribution reliability outcomes in the state's licence conditions for distribution businesses should be amended.**

## Review process

The two workstreams have separate timetables. Any amendments to state licence conditions would need to be made by the NSW Government in time for the next distribution regulatory control period which starts on 1 July 2014.

We note that the timing below is different to that contained in the MCE's terms of reference. This is due to the time taken to finalise logistical arrangements for the review with governments. Timeframes for the national workstream will be confirmed in the national workstream issues paper, which is due for release by July 2012.

| NSW workstream  | Date            |
|---|-----------------|
| Publication of NSW issues paper                       | 3 Nov 2011      |
| Submission close for consultation on NSW issues paper | 1 December 2011 |
| Publication of best practices approaches paper        | Jan 2012        |
| Publication of NSW draft report                       | May 2012        |
| Publications of NSW final report                      | August 2012     |

| National workstream   | Date  |
|-----------------------|---|
| National issues paper | By July 2012                                |
| National draft report | Nov 2012                                    |
| National public forum | Dec 2012                                    |
| National final report | 4 months after MCE comments on draft report |

## Consultation on the New South Wales workstream

The issues paper released today sets out the proposed scope and approach for the NSW workstream. We propose to:

- consider best practice national and international reliability standards and outcomes;
- estimate the costs of achieving a range of different distribution reliability outcomes in NSW, taking into account the investment to date by distribution businesses to achieve the reliability outcomes in the existing licence conditions; and
- estimate the willingness of the NSW community to pay for a range of reliability outcomes, taking into account the characteristics of different types of customers and regions in the state.

Using this information, the AEMC will provide advice on the costs and benefits of a range of future distribution reliability outcomes for NSW. This advice will also take into account the impact of different possible reliability outcomes on electricity prices, energy security, and other relevant factors. The NSW Government will use this advice to consider whether the distribution reliability outcomes in the NSW licence conditions should be amended.

## What is reliability?

Reliability refers to the extent to which customers have a continuous electricity supply. Interruptions to continuous supply can be of varying duration from fractions of a second to several hours, depending on the cause and what has to be done to restore supply.

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