

1 December 2011

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By online submission

Dear John

RE: Issues Paper on NSW Distribution Reliability Outcomes and Standards Review

AEMO welcomes the opportunity to provide feedback on the AEMC's Issues Paper on the review of the NSW distribution reliability outcomes and standards review.

AEMO supports changes to the planning framework which promote efficient outcomes, transparency and consistency. AEMO considers that distribution and transmission networks should deliver a level of reliability that most effectively balances the costs of investment with the benefits of reliable supply to customers. A price-service approach to reliability planning would ensure network service providers are focussed on providing reliable and secure electricity to customers.

We would also support any changes ahead of the NSW distribution price reviews process which commences on 1 July 2014. To the extent that the distribution businesses have already commenced their internal processes to prepare their applications to the AER and where changes to standards may be onerous, the AEMC should consider developing transitional arrangements as part of this package of works. This will ensure that any improvements in the planning standards identified by the AEMC could be taken into account by the AER and passed on to consumers as soon as possible rather than being delayed until after 2019.

This submission discusses AEMO's view on the proposed approach to reliability planning and using AEMO's VCR methodology to estimate the willingness of customers to pay for distribution reliability.

Form of distribution standard

The terms of reference refer to "different reliability outcomes". AEMO would encourage the AEMC to focus on a form of reliability standard which is focussed on the outcome delivered or the service received by customers rather than on the assets provided through some form of redundancy standard. The statement that deterministic standards are employed in all states at a distribution level we would question, especially beyond the sub-transmission network. At all levels, but particularly in distribution, the level of reliability seen by customers is related not only to the assets provided but also the planned maintenance and vegetation management around those assets and the speed of recovery when failures occur. Any form

of standard should provide a framework within which the distributor has the incentive to optimise the mix of approaches available to deliver the reliability outcome required.

In addition to the technical performance delivered, the customer experience is also affected by the quality of communications between distributors and their customers, particularly during emergencies. The AEMC should consider whether the review might also consider making recommendations in this respect.

Approach to distribution reliability planning

NSW currently uses the N-X deterministic approach for distribution reliability planning. This approach, when rigorously applied, can be shown to deliver levels of reliability which are in excess of the needs of consumers because it does not consider the cost effectiveness of the investment. Experience in recent years has shown that a strict interpretation of these criteria can lead to increases in consumer costs. As recently noted by the AER in their Rule change proposal on Network Regulation, "...increases in network charges have been driven in part by the need for increased investment to replace ageing assets and to meet increased peak demand, growing customer connections and *higher reliability standards* (emphasis added)"¹. An approach to help lower network costs would be to assess unserved energy at risk and evaluate this through the use of a VCR and the probability of the event occurring.

The distribution reliability standards also affect transmission planning outcomes with an increased requirement for transmission investment to support the distribution network.

The current framework also does not appear to provide sufficient opportunity for non-network service providers to deliver services for customers on a NEM-wide basis, further contributing to asset-focussed outcomes. AEMO believes that the approach to distribution reliability planning should consider the benefits of providing reliable service to the end use customer and therefore focussing more on services rather than assets.

We also recognise that the supply of electricity to some regional areas, particularly remote areas, in Australia is difficult to justify solely on economic grounds. In these cases, the AEMC may want to consider the need for some default level of reliability. In any case, the process should still focus on the minimising the cost of supply considering the full range of options possible to meet the standard.

Using AEMO's VCR methodology

In the Issues Paper, the AEMC have proposed to use AEMO's VCR methodology to estimate the willingness of NSW customers to pay for distribution reliability.

AEMO supports the AEMC's proposal of using the Victorian VCR methodology in reliability planning. This methodology seeks to promote a service-focussed approach as it considers the value customers place on having an uninterrupted supply of electricity. AEMO considers that this approach would encourage a more service-based planning framework and would provide opportunity for a more rigorous cost-benefit analysis to be undertaken for investment planning to lower network costs.

AEMO is currently undertaking a review of the existing estimates of the VCR from a survey performed in 2007. The review is also investigating the scope for future measurement of VCRs for each NEM region including recommendations for developing new estimates in the future. As part of the review process, AEMO engaged consultants Oakley Greenwood to

¹ <http://www.aemc.gov.au/Electricity/Rule-changes/Open/Economic-Regulation-of-Network-Service-Providers-.html>

provide an overview and observation on various approaches of estimating the amount a customer places on reliability. Recommendations and considerations resulting from Oakley Greenwood's review were published in a report in November 2010 which is available on AEMO's website². AEMO suggests that these observations are considered in the AEMC's review and is happy to assist the AEMC to analyse the outcomes from any survey undertaken.

If you have any questions please do not hesitate to contact Louis Tirpcou on (03) 9609 8415.

Yours sincerely

David Swift
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² <http://www.aemo.com.au/planning/0409-0005.pdf>