

23 November 2011

www.ipart.nsw.gov.au

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

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John

Dear Mr ~~Pierce~~,

REVIEW OF DISTRIBUTION RELIABILITY OUTCOMES AND STANDARDS

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for regulating electricity prices for the majority of small customers in NSW.

In the past 5 years regulated electricity prices have increased by around 60% in real terms and increased network costs is the main driver of these price increases. We anticipate further large price increases on 1 July 2012 to reflect increased costs associated with introduction of the carbon pricing mechanism and the Renewable Energy Target, together with further increases in network costs.

Throughout our price review processes, customers and their representatives have highlighted to us that they have serious concerns about increasing electricity prices and its effects on customers, particularly low income households. Given public concerns about rising electricity prices, it is unclear whether the community considers that the reduced risk of failure as a result of higher standards introduced in 2005 represents 'value for money'.

In our Draft and Final Determinations for 1 July 2011 price increases, we recommended that the NSW Government satisfy itself that the current standards for network reliability and security align with customers' willingness to pay.

We welcome the AEMC's review of distribution reliability outcomes and standards. We believe that it is important to thoroughly analyse the costs and benefits of reliability standards.

We are particularly concerned about engaging customers in regulatory decisions and we welcome your intention to support your cost-benefit analysis with an estimate of the willingness of NSW customers to pay for distribution reliability.

In relation to your sampling methodology, we recommend adopting your option 2 because our analysis suggests that the characteristics of customers (in terms of income and consumption) differ markedly between distribution areas. The most stark difference is that the income is lower and consumption is higher for residential customers in Essential Energy's area than in the metro areas. Further small businesses consume more electricity on average in the Endeavour Energy area than the Ausgrid or Essential Energy areas, which might be an indication of different types of businesses which may value reliability differently.

The willingness to pay analysis conducted by ESCOSA suggested that while customers did not support a general increase in reliability, the majority of customers supported an increase in reliability for customers in the areas with the greatest reliability problems.

In conducting your analysis it would be useful to consider the range of the value to customers and what drives this range. In effect the reliability standards provide a regulated 'floor' level of reliability for all customers. There could be opportunities to install equipment within a specific customer's premises to improve reliability for customers who prefer higher levels of reliability. For example, uninterruptable power supply (UPS) equipment for maintaining supply during outages can be sized for whole premises or for specific applications such as computers, cash registers, EFTPOS and lighting. Large UPS systems are used in banks and hospitals, where maintaining supply is critical. The capital cost of UPS equipment for a specific application would need to be weighed against the 'cost' of loss of supply and hence the level of reliability.

Such opportunities for users to improve their own reliability and quality of supply may mean that the optimal reliability level should not be based on the average or median willingness-to-pay for reliability, but on a value somewhat below this. Setting the reliability standards too high may discourage competition and future innovation in services on the customer's side of the meter.

We encourage you to ensure that low income customers (or their representatives) are adequately represented in your analysis and consultative processes.

Given our experience in surveying residential customers regarding electricity and other utilities, we have detailed information about customers and their electricity usage and bills. We are willing to provide further assistance or advice regarding your survey. Further, we are willing to share with you our detailed information on customer characteristics for each distribution area.

If you have any queries or would like any assistance from IPART, please contact Anna Brakey on 9290 8438.

Yours sincerely

A handwritten signature in black ink that reads "James Cox". The signature is written in a cursive style with a large initial 'J' and a distinct 'Cox'.

James Cox, PSM
Full Time Tribunal Member and CEO