EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

31 July 2013

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

Dear Commissioners

Review of the national frameworks for transmission reliability

A: Introduction

Energy Australia welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper on the "Review of the national frameworks for transmission reliability."

We are one of Australia's largest energy companies providing gas and electricity to over 2.7 million household customers. We own and operate an integrated portfolio of energy generation and storage facilities across Australia.

We support the proposed national approach to determining reliability standards where standards are derived from a transparent economic assessment and expressed deterministically. Transmission reliability standards should reflect economically efficient outcomes, and take into account local conditions and the value placed on reliability by customers.

B: Key points

1. We support development of national approach for setting transmission reliability standards.

A national approach for setting transmission reliability will allow reliability standards and targets to be more transparently compared and benchmarked across the NEM. It will promote more efficient planning and investment decisions by Transmission Network Service Companies (TNSPs) which will deliver more efficient prices for consumers in the long term.

The application of economically derived and deterministically expressed reliability standards that take into account the local conditions and reflect the value that customers place on reliability is appropriate.

We support the proposed national framework to require transmission reliability standards to be expressed on an 'N-x" deterministic basis. This standard would be set in a transparent and open manner at each connection point on a TNSPs network.

2. A national approach for deriving reliability standards economically will increase efficiency and transparency.

A national reliability standard that is economically derived in a transparent and robust manner will allow the trade off between the costs of investing in networks and the value of customer reliability by customers to be more effectively considered. This should lead to more efficient investment by TNSPs.

In addition, the development of a national framework for transmission reliability standards will allow more accurate comparisons of reliability levels across jurisdictions. Currently the levels of reliability for transmission are set and regulated in each jurisdiction. This makes it very difficult for market participants and regulators to compare the level of reliability in the different jurisdictions.

3. We support development of a national approach to estimating VCR.

We support AEMO's efforts in developing a national approach to estimating the VCR. AEMO's work will improve the measurement of VCR. In addition, the explicit consideration of customer preferences in the standard setting process through the VCR will improve the process currently used in some jurisdictions.

We accept that deriving the value of reliability that a customer places on a specific connection point is difficult and that there is currently no universally accepted methodology for determining the value that customers place on transmission reliability.

Developing a methodology to accurately estimate the Value of Customer Reliability (VCR) is difficult because the process is inherently subjective. There are a range of factors that can actually influence the value that customers place on reliability at a specific connection point.

However development of a robust and transparent process for estimating VCR is necessary to better inform a TNSP's assessment of the tradeoffs between costs and reliability at each specific connection point on the transmission system.

4. We support the development of a national standard reference template.

The proposal to develop a national standard template for transmission will encourage consistency in the way in which transmission reliability standards are expressed across jurisdictions.

A consistent NEM wide national reference standard will enable reliability standards in the different jurisdictions to be reported and used as a benchmark for performance reporting. It would also allow stakeholders to hold TNSPs accountable to the reliability standards they publish because the differences in reliability performance between TNSPs will become transparent.

5. Appropriately consulting with customers in is essential.

Consulting with customers is essential to ensuring the standards reflect customer preferences. This will assist in determining which parameters should be considered for each connection point when delivering the reliability scenarios.

Customers must also have the opportunity to provide input during the economic assessment process when the costs and benefits of the reliability scenarios are been assessed.

6. The AER should develop the detailed guidelines and setting VCR.

The AER has the necessary technical expertise and independence to develop a national set of guidelines.

The national guidelines would be developed in conjunction with the TNSPs. In addition, the guidelines would be developed under a consistent set of principles that were set out in the National Electricity Rules (NER).

The AER should set and update the VCR every five years in each jurisdiction.

Whilst AEMO is currently in the process of developing a national VCR methodology, the AER should have the opportunity to refine AEMO's methodology. AEMO and the AER could work together to further develop a national methodology over time.

7. Reliability standards should be fixed for the five year regulatory term to provide certainty and transparency.

Fixed transmission reliability standards that are set for a five year regulatory term offer benefits in terms of transparency and certainty.

By having fixed transmission reliability standards at specific connection points on the transmission system, it provides certainty and transparency regarding the level of reliability that is required to be provided by a TNSP at each specific connection point.

In addition, fixed transmission standards that apply over the term of a regulatory period at specific connection points derived on the basis of a cost benefit assessment delivers the certainty of economically efficient investment. Therefore, the VCR at each connection point will reflect the value of customer reliability that is specific to the local conditions at each connection point in a transparent manner.

Nevertheless, the AEMC has decided that where the key assumptions used during the rate setting process, such as costs, have changed significantly over the regulatory period, the basis of the standard setters decision may be affected. Under the proposed framework, reliability standards and settings could be updated during the regulatory control period, but only where a key set of criteria are met.

We support the AEMC's proposal to allow reliability standards to be updated during a regulatory period only under certain circumstances.

C: Conclusion

EnergyAustralia appreciates the opportunity to make a submission on this issue.

Overall, we consider that the development of a national approach for deriving reliability standards that are economically derived and expressed deterministically to be appropriate.

In addition, we support the development of an approach for setting national transmission reliability standards that reflect economically efficient outcomes which take into account local conditions and the value placed on reliability by customers.

We thank the AEMC for the opportunity to make this submission. For further inquiries regarding this submission, please contact me on Tel: 03 8628-1240.

Regards

Yours sincerely

Signed for email

Con Noutso
Regulatory Manager