

30 January 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Level 9
99 Gawler Place
Adelaide SA 5000
Postal Address:
GPO Box 2010
Adelaide SA 5001
T 1300 858 724
F 08 8410 8545

By online submission

Dear Mr Pierce

RE: Draft Report on Distribution Reliability Outcomes and Standards Review – National Workstream

AEMO welcomes the opportunity to provide feedback on the AEMC's National Workstream Draft Report on the review of distribution reliability outcomes and standards.

As noted in our submission to the AEMC's Issues Paper, AEMO supports changes to the planning framework which promote efficient outcomes and transparency. 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.

AEMO welcomes the Commission's draft recommendation that promotes an outputs-based approach to meet reliability which considers the value customers place on uninterrupted supply of electricity. This approach ensures the right investment is delivered to customers at the right time. In the longer-term it also prevents inefficient over-investment of network assets.

AEMO also supports coupling output-based reliability targets with an incentive mechanism, as recommended by the Commission, to encourage businesses to perform to meet their targets. AEMO believes this is a positive step to strengthening accountability of the businesses to provide a reliable service to customers. In the longer-term, revenue regulation should be solely linked to achieving the outputs-based reliability standards. This will guarantee the right price-service balance is provided to customers.

AEMO supports using a value of customer reliability (VCR) or willingness to pay measure for both distribution reliability planning and revenue setting. These measures can be used to determine the optimal time for network investments and can also be linked to the SAIDI and SAIFI targets to drive efficient network performance.

Analysis undertaken by AEMO as part of our submission to the AEMC's Review of the NSW Distribution Reliability Outcomes and Standards, as well as work produced by AEMO¹ demonstrates that an economic cost-benefit approach which applies a VCR can achieve sizeable reductions to electricity prices without significantly compromising reliability.

¹ Economic Planning Study Report, Available: <http://www.aemo.com.au/Electricity/Planning/Related-Information/Economic-Planning-Study-Report>

AEMO will soon commence its National VCR review as requested by the SCER. AEMO will work closely with the AEMC to ensure our study and any findings at the time are considered in the AEMC work stream's final report.

If you have any questions please do not hesitate to contact Louis Tirpcou, Group Manager Regulatory Policy, on (03) 9609 8415 or louis.tirpcou@aemo.com.au.

Yours sincerely



David Swift
Executive General Manager
Corporate Development