



**TOTAL ENVIRONMENT CENTRE INC.**  
National Electricity Market Campaign

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Submission to the AEMC

**Review of Distribution Reliability  
Outcomes and Standards**

Draft Report

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## Total Environment Centre's National Electricity Market Advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environment, flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for eight years, arguing above all for greater utilisation of demand side participation — energy conservation and efficiency, demand management and decentralised generation — to meet Australia's electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers, pursuant to the National Electricity Objective (NEO).

### Review of distribution reliability outcomes and standards

TEC appreciates this opportunity to make a submission to the AEMC regarding the reform of reliability standards in the NEM. TEC is impressed with the research undertaken by the Brattle Group, and by the AEMC's decision to adopt many of the reports best practice recommendations into the draft report. We are therefore pleased to support the AEMC's recommendations in a number of areas, namely:

- Shifting to an outputs-based approach rather than toward the strict input planning approach currently present in some NEM jurisdictions. We are of the opinion that this could result in DNSPs implementing more efficient solutions to achieving reliability outcomes, such as investing in demand management.
- Providing for both rewards and penalties for DNSPs.
- Provision of an allowance for additional measures to address worst served customers.
- The creation of a nationally consistent framework for public reporting to allow for more accurate comparisons of performance.
- Reliability targets which take into account customer preferences and community needs and expectations.

However, TEC is concerned that the AEMC's approach falls short of developing a truly national standard. It is our understanding that jurisdictional standards are themselves part of the problem, in that states and territories can set standards that are too stringent, thereby causing over expenditure. As Garnaut states:

*Several States have recently adopted higher reliability standards for distribution networks. These require additional capital investment by the network businesses in these states to ensure that the higher standards can be achieved within the regulatory requirements.<sup>1</sup>*

The current proposal provides for maintaining jurisdictional reliability targets developed 'under a nationally consistent economic assessment process and using a nationally consistent set of definitions and exclusion criteria'. While we understand that this allows flexibility in relation to the circumstances in different states, we are not yet convinced that the proposed process will be sufficient to curtail excessive reliability targets in the absence of a binding national standard. Indeed, given that the current proposal leaves target-setting with the jurisdictional authorities, it seems that the focus is on maintaining complete flexibility, at the cost

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<sup>1</sup> Garnaut, R., 'Transforming the Electricity Sector' (Update Paper 8, 2011) <http://www.garnautreview.org.au/update-2011/update-papers/up8-transforming-electricity-sector.pdf>.

of national harmonisation. While there remains the option for jurisdictional authorities to transfer authority for the setting of output reliability targets to the AER, we believe that it is highly unlikely that any jurisdiction will do so.

TEC notes that the Brattle report states that in nearly all other jurisdictions, the same agency is responsible for virtually all aspects of regulating distributors, including regulating reliability and setting allowable revenues. This was also noted by the Major Energy Users in their submission to the issues paper. We agree with the MEU that only the AER is able to effectively balance the cost of meeting a reliability standard with the setting of the standard itself, and to incorporate adjustments to the allowed revenue to provide for penalties and incentives.

TEC therefore calls on the AEMC to reconsider the decision not to transfer the responsibility for reliability targets to the regulator. In the alternative, we would propose that the current proposal is modified so as to include a range of permitted reliability targets, to ensure that no jurisdiction sets reliability standards that are outside a reasonable range.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Angel', written in a cursive style.

**Jeff Angel**  
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