Major Energy Users Inc.

Australian Energy Markets Commission

Review of Distribution Reliability Outcomes and Standards

Comments on the Issues Paper – National Workstream

Submission by

The Major Energy Users Inc

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Executive Summary

The Major Energy Users Inc (MEU) supports the AEMC's efforts at reviewing the national distribution reliability outcomes and standards. Like the SCER, the MEU has particular concerns about the impact of network expenditure on energy bills and asks whether the approaches used by each regional government can be modified to improve outcome for consumers in terms of both reliability and cost.

The MEU agrees with the AEMC framework that it has used but it must ensure that its assessment and recommendations reflect the needs of consumers and that the framework provides the best outcome for consumers in terms of the value for money consumers are required to pay for the network.

Retaining minimum standards set by governments imposes costs that might not be necessary if there is a well designed Service Target Performance Incentive Scheme (STPIS) implemented. If there is to be an imposition of minimum standards, any financial penalty imposed for substandard performance and non-achievement of the minimum requirement must be remitted back to consumers and not retained by government.

Overall, there are five aspects that the MEU recommends the AEMC review needs to focus its attention to:

1. Imposing input reliability settings precludes a DNSP implementing potentially more efficient solutions for achieving reliability

2. Duplication under the current arrangements of setting minimum standards, as well as implementing a STPIS, is inefficient

3. The need for a national framework for setting reliability outcomes provides the basis for enhanced benchmarking of DNSP performance

4. Prevent the ability for different jurisdictions to impose different exclusions in the calculation of reliability outcomes

5. Requiring DNSPs to implement better network pricing approaches to assist in providing better signals that lead to improved reliability at lower cost.

The MEU has provided responses to each of the specific questions asked in the Issues Paper.

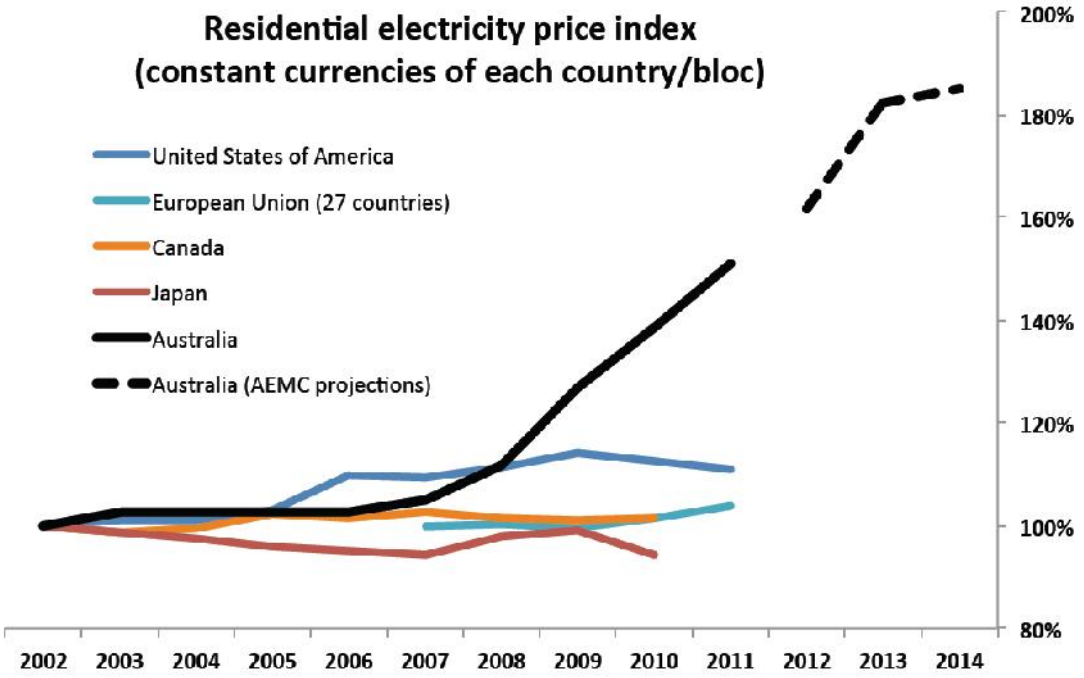
1. Introduction

The Major Energy Users Inc (MEU) welcomes the opportunity to provide views on the AEMC's Issues Paper on Review of Distribution Reliability Outcomes and Standards – National Workstream.

1.1 Electricity costs in general

The NEM design is based on providing strong incentives for the supply side of the electricity market to provide a vibrant and responsive electricity supply. But in delivering a reliable electricity market, the incentives provided to supply side participants have resulted in a number of detrimental outcomes.

Of most concern, is the burgeoning cost of electricity in the NEM compared to other competitive electricity markets.



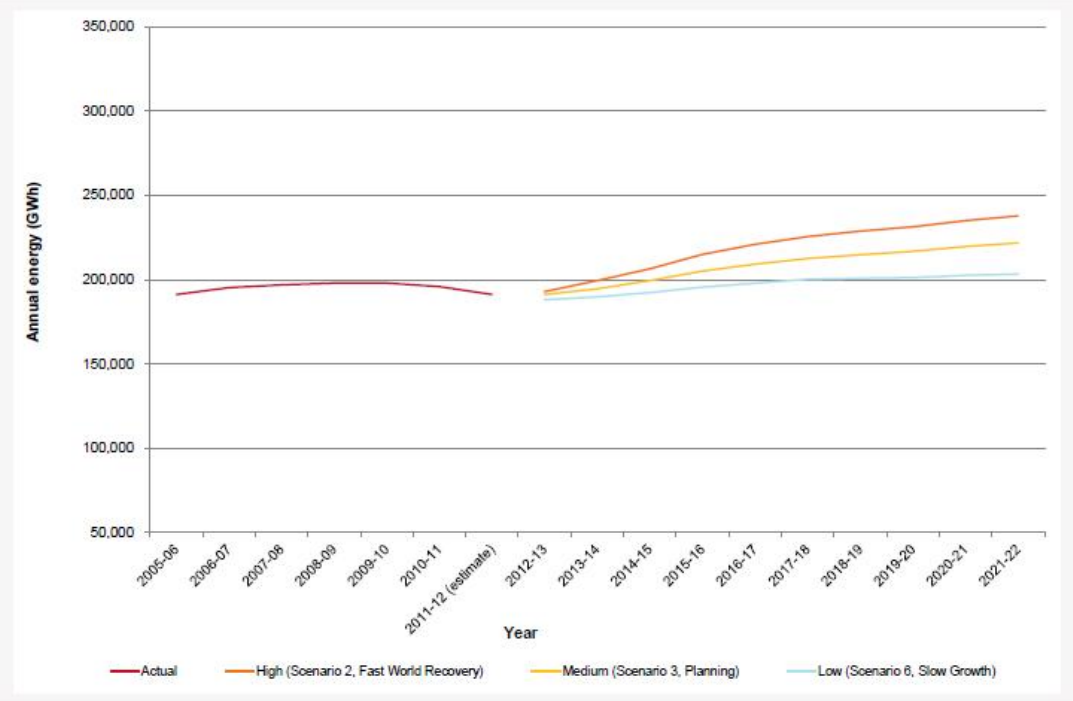
Source: Carbon Market Economics

The massive rise in NEM electricity costs has only occurred since 2007. The timing of this rise is closely allied to the introduction of changes to the electricity rules, the blatant use of generator market power to increase average wholesale prices and the introduction of renewable energy targets.

Other commentators (Garnaut, Parry/Duffy, IPART) have raised the issue of network investment incentives as a cause of the sharply rising network costs, and the AEMC review of NSW reliability standards indicates that increasing standards have reached a point where the cost of the reliability provided exceeds the benefit of the standards.

Whilst the forecast of the AEMC for higher electricity prices shows a distinct and rapid escalation of prices, this was carried out before the recent assessment by AEMO[1] that electricity demand and consumption has been falling in recent years and its forecast to increase at very low rates in the future.

Figure 3-1 — Annual energy forecasts for the NEM



Source: AEMO 2012 National Electricity Forecast Report

In the report AEMO comments that reductions in forecasts are due to[2]:

- Slower growth in consumption by large industrial users
- Significant penetration of rooftop photovoltaic generation
- Reduced usage by manufacturing users due to the high $A
- Moderation in national GDP
- Impact of high electricity prices

The import of this report is that costs per unit of electricity used will increase even faster than the AEMC forecast because prices continue to increase but will be allocated over an essentially flat growth in consumption. Increasing prices will result in less consumption, providing the "Death Spiral" scenario promulgated by AGL's Simshauser and Nelson[3].

[1] AEMO National Electricity Forecasting Report available at http://www.aemo.com.au/en/Electricity/Forecasting/~/media/Files/Other/forecasting/2012_National_Electricity_Forecasting_Report%20pdf.ashx
[2] Ibid page 3.1
[3] Available at http://www.aglblog.com.au/wp-content/uploads/2012/07/No-31-Death-Spiral1.pdf

1.2 An overview of reliability as seen by consumers

Consumers see reliability in terms of their electricity supply at the point of connection. In almost every case, except for those consumers who have devoted considerable effort into understanding the electricity supply chain, consumers don't care where the lack of reliability occurs; all they understand is that "the lights went out". However, under the electricity supply arrangements that now apply, this reliability is a function of the performance of generation, transmission, and distribution. But it is also necessary to accept that the performance of the market operator (AEMO) and each consumer's retailer also impact on the overall reliability of supply of electricity.

By segregating the market into these five different elements, any change in reliability in one element may not necessarily impact on the overall reliability at the point of connection. Generally, the reliability seen by consumers is most impacted by the performance of the distribution networks where most of the disturbances occur. But the cost consumers see is a function of the cost incurred in each element. This means that there may be a large cost incurred in one element to improve reliability but when the consumer sees the overall reliability impact, there may have been little or no change.

For example, if reliability in the transmission element is improved (but the costs for this are high), consumers see little improvement as the transmission network is already much more reliable than the distribution networks. They do see the increase in cost but the overall reliability they see may not have changed.

In a similar way, the increase in reliability in the generation sector is also very high (with unserved energy being 0.002%). The increase in the market price cap to retain this level of unserved energy resulted in a higher cost for electricity seen by consumers, but this increased cost did little to improve the reliability of supply at the consumer's connection point.

This overview highlights that whilst reliability of supply through the distribution networks might not have changed in recent times despite the amount of funding DNSPs have had consumers have seen increased costs due to improved reliability in the other elements of the supply chain. This means that when the AEMC examines the issue of the cost of reliability, it must address the total cost seen by consumers in relation to the reliability seen by consumers at their points of connection – i.e. across the five different elements that impact on reliability as seen by consumers.

Another aspect of reliability not generally recognised by governments, but is starting to be recognised by regulators is that reliability across a network is not the same for all consumers of the same class. There are sectors of a network that provide less reliability than other parts yet all consumers of the same class pay the same, even though they receive a different standard of reliability.

Because of this there needs to be a greater focus on ensuring those sectors of the network with a poorer performance are enhanced in order to bring all reliability up to the same standard for all consumers of the same class.

Averaging reliability measures does not identify those sectors where there is clearly a lesser reliability performance, and hence there is a need for improvement. This means that the measures of reliability must be extended to highlight the least well performing sectors. Not to do so, does not provide equity between consumers of the same class, as the price for the service is the same regardless of the reliability provided.

1.3 A general overview of the approach to distribution reliability

The AEMC notes that the driver behind the decision to investigate distribution reliability standards is tied to the obvious rapidly raising costs for providing electricity distribution network services. The MEU has seen the cost of distribution network services rising rapidly in real terms in recent years, and that one (but not the only) driver has been the increasing claims for capital investment.

The MEU has noted with interest that although the bulk of capex claims have been related to addressing growth of demand and customers in each distribution region, the capex costs for replacement of assets and improved reliability, have not been the largest element of the capex requested. This observation is extremely important as the distribution businesses (DNSPs), and their associations, have been advising that it is these costs (ie replacement of ageing assets and the drive for improved reliability) that are the main drivers of their capex needs.

The MEU has also been observing that even with the large amounts of capex being invested for reliability related investments, service standards have tended to increase only moderately over time[4]

This aspect (the cost of increased reliability versus the benefit of that increased reliability) is a critical factor in the economic regulation of DNSPs. What the MEU has seen is that governments have been setting minimum distribution reliability standards largely independent of an assessment of the cost involved in the achievement of the standard.

These government set standards are intended to be the base requirement for service delivery (ie a minimum standard) and that failure to deliver the minimum standard could result in the NSP losing its licence and/or a heavy fine. The penalty (of losing a licence) is a very hollow threat. In regions where the governments own the DNSPs such a threat is meaningless – governments are

[4] Interestingly, service standard targets in incentive schemes have either remained static or have fallen

not likely to remove a licence from an entity they own. Even with the privately owned DNSPs, removal of the licence would mean that there would be no network to deliver electricity to consumers when the licence was "pulled". To use the existing assets would require the government to force the sale of the assets to another party – a most unlikely scenario!

A realistic assessment, such as this, highlights that the risk of losing a licence does not impose any real threat to the DNSP. Whilst the threat of a heavy fine probably might provide some incentive, in the case of government owned networks, is the threat of a heavy fine real? At best a fine imposes a cost on the DNSP (by way of a transfer of money from the DNSP to the government) but would reduce the dividend payable to the same government. A fine to a privately owned DNSP is a real threat as it reduces the dividend to the firm's shareholders but does nothing to reimburse consumers for the losses they have incurred.

This aspect is important to note, as nearly 80% of distribution networks are government owned.

What does impose realistic financial pressures on DNSPs to provide the optimum service, is an incentive program designed to increase allowed revenue for providing a better outcome for consumers, coupled with decrease in allowed revenue from consumers if the service is substandard. To a large degree, this approach more closely replicates the pressures that a firm operating in competition sees.

Such an approach also changes the cash flows in relation to those that benefit from the service performance. If the DNSP fails to meet service performance it is consumers who suffer financially, not government – a fine does nothing to offset the damage caused to consumers. If the cost of substandard service is borne within the operation of the DNSP by reducing the allowed revenue, then consumers (not government) receive a financial benefit to offset the costs they incur through poor service performance.

In order for this approach to be achieved, the MEU considers that the setting of reliability standards needs to be carried out by the economic regulator (in conjunction with relevant expert agencies) as only the regulator has the ability to balance the cost of meeting a standard with the setting of the standard, and to incorporate adjustments to the allowed revenue to reflect a bonus or penalty from better or worse service provided.

1.4 What do consumers want in relation to service performance?

At its most basic, what consumers want in terms of service performance is the maximum of "uptime" of the supply chain and any failure to the supply chain to occur at times of least impact to the consumer.

Whilst the concept of a "deterministic" approach to reliability as is used most commonly in the NEM provides a basis for the achievement of the optimum amount of "uptime" in the network, it does not assess the cost of the approach against the benefit the approach achieves.

The probabilistic approach used in Victoria does provide a basis for implementing a cost benefit analysis. However, this approach still does not drive the DNSP to provide the best outcome for consumers – all it does is to ensure that there is a balance between cost and the likely benefit of the investment in terms of what the consumer sees[5]. This approach is heavily dependent on a single figure for the value of customer reliability, and research shows that there is no single value for customer reliability as the real value of customer reliability varies with many elements, some of which are competing with others.

In contrast, a Service Target Performance Incentive Scheme (STPIS) provides a focused approach to achieving the optimum outcome for consumers and can be factored to address one of the most concerning aspects of distribution networks – that of the most poorly performing feeders.

Consumers are concerned with a range of variables that affect their supply. The more common of these include frequency and durations of outages, and the amount of notice provided for planned outages and their timing. But it is not just the actual losses of supply that are becoming increasingly important, but the extent (frequency and durations) of disturbances in the supply which lead to trips of end users because the extent of the disturbances can cause damage to sensitive equipment used by consumers.

A well designed STPIS can readily address these other aspects of reliability that concern consumers whereas the reliability achieved through the setting of minimum requirements does not address these at all.

The MEU notes that the issue of the quality of supply is not being addressed as an element of reliability[6]. The MEU agrees that quality of supply is not closely related to reliability of supply (reliability is more about the failure of supply) whereas quality of supply related more to how consumers can use the supply provided. Where the boundary between the two becomes clouded, is where the quality of supply causes the consumer not to be able to use the supply provided. The MEU considers that the AEMC should separately address the

[5] The MEU considers that a cost related to the amount of unserved energy is not a valid basis on which to assess a consumer willingness to pay for improved reliability as the two elements have little relationship to each other. It is noted that AEMO has assumed a relationship because the outworkings provide a mathematical basis for AEMO assessments of cost/benefit studies, but its basis is essentially flawed. The AEMC should approach the use of the probabilistic methodology with care.

[6] Voltage dips and spikes cause production trips but these are not measured as an outage in either SAIDI or SAIFI calculations, yet they can cause considerable harm.

issue of standardising assessments of the quality of supply and advise SCER that this aspect should also be addressed.

1.5 Overall MEU views

To achieve the maximum benefit for consumers in relation to this review the AEMC must ensure that its assessment and recommendations reflect the needs of consumers and that the framework provides the best outcome for consumers in terms of value for the money consumers are required to pay for the network.

The MEU considers that the retention of the minimum standards set by government imposes costs that may not be necessary if there is implemented a well designed STPIS.

Just as importantly, if there is to be an imposition of minimum standards, then the approach to non-achievement of the minimum standards must remit back to consumers any financial penalty imposed for the substandard performance and not for these to be garnered by governments.

2. Setting the AEMC framework

This section addresses elements of the review following the AEMC structure of the Issues Paper

2.1 The framework of the review

The AEMC highlights that:

- There two basic approaches to setting minimum reliability standards used – a deterministic approach (used by most regional governments) and the probabilistic approach (used only in Victoria). The deterministic approach bears little relation to the costs to consumers for the reliability provided or their willingness to pay for the resultant reliability.
- In all regions (except Victoria) there is or will be an essential duplication of reliability standard setting where the regional licence requirements impose a minimum standard (driven by licence revocation and/or fines) as there is (or will be) a reliability incentive scheme established by the economic regulator
- The achievement of minimum reliability standards is effectively unenforceable (due to the bluntness of the enforcement tools) and in many instances is not enforced anyway. The fines that can be imposed are not related to the costs consumers incur as a result of the substandard reliability
- Whilst there is some similarity between the various regionally based schemes for setting minimum standards, there are also some significant differences. Conversely, the STPIS established by the AER is consistent for all DNSPs although there are differing numeric standards in each region applicable to the DNSP
- There is a fundamental inconsistency with the setting of minimum reliability standards (by a region) independent of the provision of funds for their achievement by the AER
- There is a concern about using financial incentives to drive reliability as they tend to provide rewards based on average performance across a network. Averaging tends "hide" performance on worst served parts of a network.

The MEU agrees with all of these aspects that the AEMC has highlighted and considers they are fundamental to the issue of ensuring the best outcomes for consumers.

One key aspect that needs amplification, although mentioned as a benefit from national consistency, is that of the benefits of benchmarking reliability between regions. Regulation is intended to provide a surrogate for competition, and competition by comparison is an extremely useful tool to regulators when setting funding allowances (capital and operating expense). Having a consistent

basis for assessing reliability performance allows consumers and regulators a valuable tool when considering claims for funding at revenue reset reviews.

The MEU sees that the AEMC is aware of the issues associated with assessing consumer preparedness to pay. The AEMC notes that its current task is to identify the benefits and detriments of having a standard national approach to reliability and that depending on the response it has from SCER to its report, the next stage will involve a better approach to assessing the ways of ensuring there is a balance between the levels of reliability, the costs associated with achieving these, and the preparedness of consumers to pay for these levels of reliability.

Those consumers who receive excellent reliability are unlikely to want to pay for improved reliability but would be unlikely to countenance reduced reliability. Those consumers being served by poor performing network elements would like to see an improvement, but as they are already paying for the average performance they would see that, quite reasonably, they would want to see what “average reliability performance” is before providing an opinion.

Overall, the MEU considers the AEMC approach to the task is sound and identifies most of the concerns the MEU would have with establishing a national framework for setting reliability standards

2.2 Issues for the AEMC review

The MEU considers there are five aspects the AEMC review needs to focus on that currently do not receive the amount of attention consumers would expect.

2.2.1 Imposing input reliability settings

The deterministic approach imposes input reliability measures and so precludes potentially better solutions for achieving reliability. It is inappropriate that the jurisdictional approach used most widely not only determines input requirements and then seeks to impose penalties for not achieving set outputs.

The MEU considers that imposing input requirements (eg N-1, etc) precludes the DNSP implementing potentially more efficient solutions to achieving the required outcomes.

2.2.2 Duplication

The duplication that is inherent in the current arrangements (ie setting of minimum standards and implementing a STPIS) is inefficient. The costs involved with the implementation of both tools are not warranted, especially when considering the lack of penalties incurred when the jurisdictional minimum standards have not been achieved.

The MEU is of the view that the reliability of supply can be readily achieved with less overall cost by the use of the AER's STPIS, providing it is modified to include an element to address the worst performing elements of a network.

Elimination of the jurisdictionally set minimum standards would also bring together the ability of the AER to balance the level of reliability needed with the funds needed for their achievement.

2.2.3 Benchmarking

The need for a national framework for reliability settings provides the basis for more than just consistency for consistency's sake. A national framework will allow for comparisons to be made of reliability and the associated costs between all jurisdictions and regions.

A national framework will improve the quality of regulation and for consumers to see what they get for what they pay.

2.2.4 Exclusions

The MEU agrees with the AEMC that the current arrangements provide the ability for different jurisdictions to impose different exclusions to the calculation of the reliability provided. The MEU agrees that this has the ability to prevent the best use of reliability measures, especially in comparison to those in other regions.

The MEU considers that from a consumer's perspective, the loss of supply has the same impact on the consumer, regardless of the cause of the loss. This means that consumers consider that there should be the minimum of exclusions (preferably none) included in a reliability standard. An example of this is made in the Issue Paper where the AEMC cites that traffic accidents can cause a loss of supply and the DNSP can take action to minimise such events.

There are other causes of loss of supply that are not the fault of the DNSP but where actions by the DNSP can result in fewer outages. Because there can be a cost to minimise such incidences, the combination of the elimination of the exclusions must be coupled with the ability to provide an allowance for their avoidance.

2.2.5 Network tariff setting

The MEU also notes that the use of better pricing signals in tariffs to encourage users to reduce peak consumption is an efficient and cost effective way of improving network reliability. MEU members have seen

tariffs rest that effectively change the dynamics of peak and off peak usage of networks such that the value of using the network at off peak times is severely diminished.

The MEU encourages the AEMC to explore the benefits of improved reliability through load shifting.

3. Responses to AEMC questions

The MEU provides the following responses to the specific questions raised in the Issues Paper. The MEU has endeavoured to keep its answers as concise as possible and refers to the commentary in the preceding sections to amplify its reasoning.

Chapter	#	AEMC question	MEU response
2	**1**	**Should the AEMC consider any other aspects of existing NEM jurisdictional approaches to distribution reliability?**	No. The AEMC has identified the critical aspects that should be addressed. The MEU agrees that issues of safety, customer service standards and quality of supply are elements that are not intrinsic to the issue of reliability. However, the MEU does consider that there is merit in looking to standardise on aspects covering quality of supply as these also impinge on the way consumers see reliability. The AEMC should advise SCER that this is an important issue that needs to be addressed.
	2	**Should the AEMC consider any other aspects in its approach to the national workstream?**	Yes. The AEMC must consider the detriments of the duplication inherent in the current arrangements, where jurisdictions set minimum standards and the AER has an incentive scheme. This means the AEMC must balance the benefits and detriments between the two approaches and the likelihood of providing the best outcome for consumers.
3	**3a**	**What are the most appropriate administration arrangements for distribution reliability planning?**	It is inconsistent for the party setting the standards not to be responsible for the determination of the funds to achieve the standard. The MEU considers that both the setting of the standard and the ensuring the funds are provided for their achievement must be by the AER. To set them independently is not efficient and not in

			the long term interests of consumers. Equally, it is inconsistent and inefficient for the jurisdiction to determine how the standards are to be achieved when the DNSP is required by the AER to achieve the outcomes in the most efficient manner. Administratively, the most efficient approach is for the DNSP and the AER to set the standards required in terms of performance and to set the allowance for their achievement. Jurisdictions (especially those owning the DNSP) should allow the AER to manage the function of outcomes and allowances for their achievement.
	3b	**What are the different approaches that could be adopted for distribution reliability planning and how could these approaches employ a proper analysis that incorporates an estimate of the value of customer reliability or willingness to pay?**	Consumers are focused on the outcomes of reliability and the cost of their achievement. To a large extent, they are not interested in how the outcomes are achieved as this is an expertise the DNSP has. A deterministic approach does not reflect either the cost to achieve the outcome desired or the most appropriate method to achieve the outcome. It merely imposes costs without ensuring the most efficient method of achieving the desired outcome. A probabilistic approach does provide an indication as to whether implementation will deliver a benefit to consumers, but the setting of the value of customer reliability is fraught, and will vary between different classes of customers, vary with the time of the day and year, and vary with the duration and frequency of the outages. It is therefore a quite imprecise tool Imposing an incentive scheme embedded in the regulatory reset review provides the driver for the DNSP to achieve the expected outcomes in the most efficient manner, and links the cost of the achievement with the benefits of the outcomes achieved.

	4a	**What are the expected costs and benefits associated with consistency in expressing reliability standards and how can locational differences between jurisdictions be accommodated?**	A significant cost that is ultimately borne by consumers is the duplication of effort that the jurisdictions impose in the knowledge that the AER has a STPIS program in place to manage reliability. The cost to the DNSP to address both sets of requirements adds costs both in terms of reporting and in implementation of the dual process. The Issues Paper explains well why consistency in exclusions is important and would be a benefit to consumers. To this can be added the costs to meet what might not be the most efficient method to deliver the desired outcomes.
	4b	**Is there merit in having one entity regulating both reliability standards and investments and what are the possible alternatives to this approach?**	From a consumer view, the cost of duplication of effort in relation to how reliability is achieved is a key aspect. Further, the approach of jurisdictions to deciding how the reliability will be achieved (the deterministic approach) does not allow DNSPs to identify the most cost effective method for achieving reliability.
	4c	**What are the important elements of distribution reliability reporting and is there value in a nationally consistent approach?**	Reporting of outcomes against a common framework provides the basis for benchmarking. The issue of benchmarking performance is one which consumers see as a most important benefit of national consistency as this would allow comparisons of performance more readily (both in terms of outcomes and cost), which is an essential element of good regulation.
	5a	**What are the expected costs and benefits associated with existing jurisdictional incentive schemes for distribution reliability performance and the movement**	The current arrangements are duplicative and impose the costs of specific solutions to ensure reliability. The MEU does not know what these costs are but is of the view that they are considerable and cannot be the most efficient way to ensure reliability in distribution

		towards a more consistent approach across the NEM?	networks. A national framework should aim to exclude duplicated efforts and to provide a method to encourage the lowest cost approach to reliability. A significant benefit will be the ability to use benchmarking of outcomes so as to provide a better reliability outcome for all consumers. A national framework should also enable the AER to provide the most efficient allowances for costs to achieve targeted reliability outcomes.
	5b	**How could a nationally consistent incentive scheme for distribution reliability performance accommodate worst served customers?**	The MEU considers that the STPIS developed by the AER is the most efficient method for achieving reliability of supply. To address the worst served customers, the STPIS should be expanded to provide an incentive to deliver improved reliability to worst served customers.
	5c	**What are the important considerations for GSL schemes and is there value in a nationally consistent approach?**	Consumers value notice of incipient (planned) outages and the duration of the outage. With this knowledge they can better prepare their activities to adjust to the outage. A GSL imposes on the DNSP a recognition that accurate advice about planned outages is of vital importance to all consumers. A failure to provide such advice or if the advice provided is wrong, can cause considerable harm.
	5d	**What are the expected costs and benefits associated with customer communications?**	Communicating advice of a planned outage and its duration are only of value if the consumer receives this advice in a form that the consumer can access. It is also important that the consumer that will be affected by the outage is made aware. This means that the DNSP must ensure that all reasonable attempts have been made to acquaint affected consumers of a likely outage. This will require more than a text message and may require the DNSP to know who

			needs to be advised (eg in the case of a company who is the person that should be advised) and how is the best way to communicate with the consumer (eg a letter drop might be more use to a householder than a text on a mobile phone). The responsibility must remain with the DNSP to ensure that affected consumers are aware of planned outages.
4	**6a**	**What should a nationally consistent framework mean, and what should it not mean?**	The MEU considers that a national framework: • Needs to be based on outcomes, and not inputs as is currently used in the deterministic approach used by most jurisdictions. • Means on that same reliability measures for outcomes are common to all NEM regions. It requires that all calculations of these reliability measures would be made in the same way with the same exceptions and that comparisons of outcomes for each region are possible • Includes for the cost of achieving the outcomes so this means the AER revenue rest review process must be an integral part of the framework The MEU considers that the AER's STPIS which is focused on outcomes provides the basis for setting reliability outcomes. The MEU does not consider that the same outcomes as measured would be common to all DNSPs. In fact the quantums of each measure are even different within the same DNSP at different times.
	6b	**How should a "nationally consistent framework" be interpreted and what degree of consistency/harmonisation is**	As noted above, the degree of harmonisation would not focus on inputs but on outcomes. Inputs should be excluded as they do not necessarily lead to the most efficient method of achieving reliability.

		appropriate?	The AER's STPIS (modified to include an element on worst served customers) provides a sound basis for achieving the outcomes of reliability on a harmonised basis.
	6c	**In the context of setting and enforcing regulatory requirements, is it appropriate for the same body (eg the AER, a jurisdictional regulator, or a jurisdictional minister) to be responsible for both setting and enforcing reliability standards and outcomes?**	No. The setting of reliability outcomes must be tied to the cost of their achievement. It is inefficient to separate the two elements of reliability setting and the costs for their achievement
	7	**What are the expected costs and benefits of moving to a nationally consistent framework?**	The MEU cannot provide the costs of the duplication nor of the costs associated with DNSPs having to meet two sets of requirements. However, the imposition of specific inputs (eg N-1 requirement) does not permit the DNSP to provide the flexibility to implement the most efficient method of achieving the targeted outcomes. This implies there is a considerable cost to consumers of the current arrangements. The benefits have been listed in responses to earlier questions and in the sections above. The MEU considers the benefits of a national approach (especially one based on using the AER's STPIS) can be readily implemented with little cost. Overall, the MEU considers that on a qualitative analysis, there will be a net benefit to consumers by implementing a nationally consistent approach based on achievement of outputs.
	8a	**How would a nationally consistent framework be likely to contribute to the**	As noted in the sections above, the threat of a licence revocation is a hollow threat (especially for government owned DNSPs) and the imposition of a fine does not recompense consumers for the harm

		achievement of the NEO?	incurred. The AER STPIS does impose real financial penalties which are more likely to result in DNSP action and does provide a degree of recompense to those consumers harmed by poor performance. The AER STPIS does not impose inputs to ensure reliability but allows the DNSP to provide the most efficient approach to ensure the outcome is achieved.
	8b	**How material are the current jurisdictional differences in reliability standards and outcomes to consumers? What impact do those differences have on consumers' locational decisions?**	The MEU is of the view that there is a material need to change from the current duplicated arrangements and that jurisdictions should not be setting input standards to ensure reliability. The MEU is of the view that the variance in reliability input standards has not been material in overall locational decisions for new downstream investment, but is material in terms of continuing costs to consumers
	9a	**What are the important considerations in moving away from existing jurisdictional frameworks to an approach that is nationally consistent?**	The imposition of input requirements for reliability as well as outcomes is duplicative and causes unnecessary costs. Imposing both jurisdictional outcomes as well as having the AER STPIS is duplicative Not having a common approach to developing reliability outcomes prevents easy comparisons between regions for reliability and the associated costs.
	9b	**What issues are likely to arise in the process of moving from existing jurisdictional frameworks to an approach that is nationally consistent and how could these best be managed or overcome?**	The MEU considers that as the AER already has a STPIS that can be readily implemented there should be little difficulty in seeking an improvement in the STPIS to incorporate any elements that would improve the outcomes for all consumers (eg a STPIS element to address worst served consumers). Because of the elimination of

			fines for poor performance, the AER STPIS could be adjusted to increase the amount of revenue at risk to reflect the elimination of any fines.
	9c	**What implementation costs would likely to be incurred in moving to a nationally consistent framework?**	The MEU considers these would be minimal if the national framework maximised the use of the AER STPIS but required certain modifications to incorporate the key elements of the jurisdictional approaches that are seen as useful.