

13 July 2012

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

Dear Mr Pierce

Review of distribution reliability outcomes and standards – Response to Draft Report NSW Workstream

ActewAGL Distribution (ActewAGL) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission's) Draft Report on the New South Wales (NSW) workstream of its review of distribution reliability outcomes and standards.

ActewAGL supports the use of economic benefit-cost analysis when balancing cost and reliability, and notes that differences in customer preferences and network costs across jurisdictions may lead to differences in optimal reliability levels. Our own studies and assessments indicate a different finding for the Australian Capital Territory (ACT) than the Commission's finding of net economic benefits from reducing reliability standards in NSW.

ActewAGL has developed and continues to improve its understanding of customer preferences. In 2003, NERA Economic Consulting and ACNielsen were commissioned to undertake a comprehensive study of customer willingness to pay across a range of service attributes and customer segments. This year, the Australian National University (ANU) completed an independent research project on ACT residential customers' willingness to pay for changes in supply reliability.

Both studies employed a choice modelling approach to valuing customer reliability. This approach is designed to directly estimate willingness to pay (or accept compensation) for changes in various service attributes. It captures all economic costs, including non-financial costs such as inconvenience to domestic customers, and is supported by a large academic literature across transport, health and environmental economics.

The results of the two studies, when compared to preliminary estimates of the costs (or cost savings) from marginal changes in supply reliability in the ACT, indicate that ACT customers would not prefer reduced levels of supply reliability with the associated cost saving. In fact, they may be willing to pay more for projects that would improve reliability.

These findings highlight the importance of assessing the balance between cost and reliability on a jurisdiction-by-jurisdiction basis.

If you would like to discuss this matter further, please contact David Graham, Director Regulatory Affairs and Pricing on 02 6248 3605.

Yours sincerely

A handwritten signature in blue ink that reads "Stephen Devlin". The signature is fluid and cursive, with a small mark at the end.

Stephen Devlin
General Manager Asset Management