

9 August 2012

Ms Sarah Lau
Project Leader
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235



positive energy

Dear Ms Lau

EPR0031 - Response to AEMC Issues Paper - Review of Distribution Reliability Outcomes and Standards, National Workstream

Energex welcomes the opportunity to provide comments on the Australian Energy Market Commission's issues paper relating to the Review of Distribution Reliability Outcomes and Standards, National Workstream. Energex provides this response as a Distribution Network Service Provider (DNSP) in South East Queensland.

From reviewing the considerable differences in the current approaches to distribution reliability across the National Electricity Market (NEM), there is a case for development of a nationally consistent framework for expressing, delivering and reporting on distribution security and reliability outcomes. Energex is particularly supportive of the adoption of planning and reliability standards that are informed by the value that customers place on reliability (VCR). Energex believes that accurate valuation of reliability is key to efficient asset investment which leads to better outcomes for customers across the NEM.

If the Standing Council on Energy and Resources were to direct the AEMC to develop a best practice framework, Energex would appreciate the opportunity to contribute to the development of a framework that delivers nationally consistent reliability outcomes based on a customer value assessment.

Attachment 1 sets out Energex's detailed comments on the series of questions raised in the issues paper.

If you require any further information please do not hesitate to contact Mr Mick Ryan, Regulatory Affairs Manager - Operations on (07) 3664 4125

Yours sincerely

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Group Manager Regulatory Affairs

Attachment

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**Response to AEMC Issues Paper – Review
of Distribution Reliability Outcomes and
Standards, National Workstream**

Energex Submission

9 August 2012

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| AEMC Questions | Energex comments |
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| <p>Question 1 - Analysis of NEM jurisdictional approaches to reliability</p> <p>Should the AEMC consider any other aspects of existing NEM jurisdictional approaches to distribution reliability?</p> | <p>Energex considers that the aspects of existing NEM jurisdictional approaches analysed by the AEMC to be fairly comprehensive i.e.:</p> <ul style="list-style-type: none"> ▪ Design planning criteria ▪ Reliability performance standards ▪ Requirements relating to worst served customers ▪ Governance arrangements ▪ Monitoring and reporting ▪ Incentive schemes ▪ Guaranteed Services Levies |
| <p>Question 2 - Approach to the national workstream</p> <p>Should the AEMC consider any other aspects in its approach to the national workstream?</p> | <p>Energex supports the AEMC's view that the development of any best practice framework will require careful consideration and engagement with stakeholders. Therefore, in the event that the AEMC is directed to develop a best practice framework, Energex considers that is imperative for the AEMC to seek an extension to allow sufficient time for consultation with all stakeholders.</p> <p>Energex believes that the development of any best practice framework should also include a review of the feeder category SCNRRR approach, which underpins performance standards. Performance standards that best reflect the experiences of customers should be developed.</p> |
| <p>Question 3 - Reliability planning</p> <p>a) What are the most appropriate administration arrangements for distribution reliability planning?</p> <p>b) 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?</p> | <p>(a) Energex considers that planning standards (e.g. utilisation) should be the responsibility of DNSPs. Regulators and/or governments should not be involved in determining the design planning criteria as DNSPs are the parties that are best placed to perform this function. Reliability performance standards may be set independently by the jurisdictional or national regulator.</p> <p>(b) Energex supports the adoption of planning methods that take into account the value of reliability to the customer or the customers'</p> |

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| | <p>willingness to pay. Value based planning will result in better outcomes for customers.</p> <p>Planning standards could be subjected to a high level sensitivity analysis using benchmarked failure rates, restoration and repair durations to compare with the value of customer reliability or willingness to pay. The planning standards adopted should differentiate the target reliability outcomes to be achieved by asset group, asset voltage or customer segments, or a hybrid of these. Each segment must be subjected to a cost-benefit analysis.</p> |
| <p>Question 4 Reliability standards</p> <p>a) What are the expected costs and benefits associated with consistency in expressing reliability standards and how can locational differences between jurisdictions be accommodated?</p> <p>b) Is there merit in having one entity regulating both reliability standards and investments and what are the possible alternatives to this approach?</p> <p>c) What are the important elements of distribution reliability reporting and is there value in a nationally consistent approach?</p> | <p>(a) Nationally consistent measures and exclusions will improve transparency of measures and help in normalising the data enabling underlying performance and trends to be more easily identified and understood for each DNSP's network. It would also ensure that consistent measures are being compared across DNSPs. However, comparisons of performance outcomes should not be made for benchmarking purposes since a number of other factors such as locational differences will influence outcomes but cannot be adequately accounted for.</p> <p>(b) Reliability performance standards are an important consideration when assessing capital expenditure proposals. Energex notes that the AER currently sets STPIS targets which are taken into account by the AER when reviewing capital expenditure proposals.</p> <p>(c) Energex considers that consistency and transparency in reporting are important requirements. In terms a nationally consistent approach Energex notes that DNSPs are already required to report detailed reliability data in the AER's annual Regulatory Information Notices (RIN). DNSPs are required to provide detailed reporting on unplanned outages, planned outages, feeder reliability data, quality of service data, data relating to worst served customers.</p> <p>Energex notes that the Energy Networks Association (ENA) has been looking at nationally consistent measures and has suggested some</p> |

| AEMC Questions | Energetex comments |
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| <p>Question 5 Incentives</p> <p>a) What are the expected costs and benefits associated with existing jurisdictional incentive schemes for distribution reliability performance and the movement towards a more consistent approach across the NEM?</p> <p>b) How could a nationally consistent incentive scheme for distribution reliability performance accommodate worst served customers?</p> <p>c) What are the important considerations for GSL schemes and is there value in a nationally consistent approach?</p> <p>d) What are the expected costs and benefits associated with customer communications?</p> | <p>alternatives to the prime focus on average measures by feeder categories. Energetex considers that while these measures have served the majority of customers well, there is merit in having another look at the measures to ensure they reflect what is important to the customer at a customer segment level.</p> <p>(a) Having both jurisdictional reliability standards and a national incentive scheme could potentially result in conflicting priorities. Energetex considers that it would be more desirable to have one scheme, either national or jurisdictional or at a minimum ensuring that there is no overlap in measures.</p> <p>(b) Separate reliability standards for worst served customers could be established by a regulator using nationally consistent measures. The national regulator could assess the prudent and efficient expenditure required to meet the set standards. Alternatively, a further parameter with targets could be included in the national STPIS.</p> <p>(c) GSL measures usually include frequency and duration of interruptions as directly experienced by individual customers. They provide measures that customers can relate to as compared to average measures. However, consistent with STPIS GSL arrangements, GSL payments should vary amongst different segments of customers and should incorporate a consideration of the value of customer reliability or willingness to pay. The costs of changes to systems and processes for DNSPs may outweigh the benefits of a nationally consistent approach to GSLs.</p> <p>(d) Energetex considers that there is adequate communication for planned interruptions and unplanned interruptions. However, voluntary proactive communications by DNSPs to specific customer segments would be useful to manage expectations, particularly where network investment may be prohibitively expensive.</p> |
| <p>Question 6 The meaning of a nationally</p> | <p>(a) A nationally consistent framework should mean a framework that</p> |

| AEMC Questions | | Energetex comments |
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| <p>consistent framework</p> <p>a) What should a nationally consistent framework mean, and what should it not mean?</p> <p>b) How should a "nationally consistent framework" be interpreted and what degree of consistency/harmonisation is appropriate?</p> <p>c) In the context of setting and enforcing regulatory requirements, is it appropriate for the same body (e.g. the AER, a jurisdictional regulator, or a jurisdictional minister) to be responsible for both</p> | <p>facilitates or mandates nationally consistent measures that appropriately reflect the experience of customers. The framework should incorporate, consistent disaggregation into meaningful segments and consistent methods to normalise results that measure underlying performance and trends. It should not mean a framework for benchmarking performance or expenditure across jurisdictions.</p> <p>(b) Given the interpretation above, harmonisation would occur around choice and definition of measures and not the standards set.</p> <p>(c) It is better if standards are set by a party that is best placed to engage with customers to determine their willingness to pay. The party setting the standards should also have the technical capability to understand the standards set and the behaviours and outcomes that they incentivise.</p> | |
| <p>Question 7 Costs and benefits of a nationally consistent framework</p> <p>What are the expected costs and benefits of moving to a nationally consistent framework?</p> | <p>The costs of moving to a nationally consistent framework would depend on how significant the changes are for DNSPs. The obvious costs would involve changes to systems and processes to accommodate different standards and methodologies. There could be costs in changing reliability investment planning processes which could become more complex and time consuming, possibly requiring additional resources and improved analytical modelling tools.</p> <p>A consistent national framework for expressing, delivering and reporting on reliability standards and outcomes may lead to better outcomes for customers. In particular, consistency and transparency of reliability standards will enable DNSPs underlying reliability performance to be more accurately assessed and understood. This will lead to more targeted and efficient reliability investment that appropriately takes into account the value of customer reliability and willingness to pay.</p> | |
| <p>Question 8 The National Electricity Objective</p> <p>a) How would a nationally consistent framework be likely to contribute to the achievement of the NEO?</p> <p>b) How material are the current jurisdictional</p> | <p>(a) A nationally consistent framework, with would contribute to the achievement of the NEO if it leads to more targeted and efficient reliability investment that reflects customers value of reliability or willingness to pay.</p> | |

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| <p>differences in reliability standards and outcomes to consumers? What impact do those differences have on consumers' locational decisions?</p> <p>Question 9 Implementation of a nationally consistent framework</p> <p>a) What are the important considerations in moving away from existing jurisdictional frameworks to an approach that is nationally consistent?</p> <p>b) 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?</p> <p>c) What implementation costs would likely to be incurred in moving to a nationally consistent framework</p> | <p>(b) Energex considers that this is difficult to quantify and is not in a position to adequately comment on this issue.</p> <p>(a) It is imperative that adequate thought is put into the most appropriate measures that reflect customers' experiences. There should be adequate consultation in the development of measures, as well as methodologies for determining VCR and willingness to pay.</p> <p>(b) The impact of transitioning to a nationally consistent framework will be different for every DNSP, given the nature of the differences in the existing frameworks across the NEM. It is probable that for some DNSPs the changes will be significant while the changes may be less significant for other DNSPs. The lack of quality data is likely to be a significant issue for DNSPs. DNSPs should be afforded adequate and realistic timeframes for transitioning to any new framework if agreed upon. Jurisdictions should also be given some options and flexibility for compliance. If jurisdictional and national standards were required to be developed, it is important to ensure that they do not overlap and drive inconsistent outcomes.</p> <p>(c) These would depend on the nature or extent of the changes. These are difficult to quantify at this stage.</p> |