



Mr Richard Owens
Director
Australian Energy Market Commission
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Email: submissions@aemc.gov.au

Dear Richard

RE: EPR0031 - Review of distribution reliability outcomes and standards

1. Introduction and context

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on the Australian Energy Market Commission's (AEMC) "*Issues Paper – National Workstream Review of Distribution Reliability Outcomes and Standards*" (**Issues Paper**).

The Standing Council on Energy and Resources (SCER) has asked the AEMC to undertake a national distribution reliability review to:

- (a) Identify and analyse the current National Electricity Market (NEM) approaches to distribution reliability;
- (b) Advise on whether there is merit in developing a nationally consistent framework for expressing, delivering and reporting on reliability outcomes; and
- (c) If requested by the SCER, develop a best practice framework that delivers nationally consistent reliability outcomes that could be voluntarily adopted by jurisdictions or used as a reference to amend aspects of existing jurisdictional approaches.

The Issues Paper focuses on tasks (a) and (b) only, which will inform the SCER's decision about whether to request the AEMC to undertake task (c).

The national distribution reliability review is being undertaken in parallel with the New South Wales (NSW) distribution reliability review. The two reviews are separate "workstreams", due to the timing of the NSW distribution price review and their "fundamentally different objectives". Whereas the objective of the national workstream is to address items (a) to (c) above, the objective of the NSW workstream is to advise on the costs and benefits of alternative outcomes or levels of distribution reliability in NSW.

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The Issues Paper starts the first stage of the national workstream and invites comment on:

- The proposed scope and approach to the review; and
- Proposed assessment framework for deciding whether there is merit in a nationally consistent framework for reliability outcomes.

The Businesses recognise the growing community concern about electricity affordability and that distribution network service providers' (DNSPs) planning criteria and reliability standards (**performance standards**) have a direct relationship with their expenditure program and in turn affordability of electricity services.

To this end, the Businesses welcome the AEMC's review of performance standards to:

- Enable the relationship between performance standards and prices to be better understood;
- Revisit the performance outcomes that customers want and are willing to pay for;
- Assess the merits of the different ways in which performance standards can apply to DNSPs; and
- Recognise the importance of setting performance standards that are quantifiable so that the DNSPs and regulators can assess whether or not specified standards have been achieved.

Section 2 of this submission sets out the Businesses' positions on the key issues as they are relevant to the AEMC's review.

2. Issues

2.1. Network Planning criteria

In order to satisfy the requirement in the *Victorian Electricity Distribution Code* (**Code**) to comply with good asset management practices (... in a way that minimises costs to **customers**...), the Businesses currently apply a probabilistic approach to network planning, apart from small localised upgrades where it is more efficient to adopt a deterministic approach.

A probabilistic approach to network planning means that investment is only undertaken where the expected cost of unserved energy, having regard for the value of customer reliability (**VCR**) and "energy at risk", is greater than the cost of network augmentation. Under this approach, DNSPs are incentivised to identify a range of investment options that could alleviate a network constraint, in order to maintain "energy at risk" or network capacity. Accordingly, network investment only proceeds where it is economically efficient having regard for varying loads on the network.

The Businesses support the continuation of this approach in Victoria on the basis that it ensures that DNSPs optimise the mix of investment options to deliver the reliability outcome required having regard for the value customers place on the investment.

The Businesses consider that planning criteria need not be consistent across jurisdictions, or indeed within jurisdictions¹, and that national consistency on this matter should not be pursued for its own sake. The Businesses support the SCER's terms of reference (**ToR**) for this review which state:

it is entirely appropriate for standards to differ across jurisdictions due to the different characteristics of distribution networks.

2.2. Reliability standards

Unlike regulatory requirements in other jurisdictions, the Code does not contain reliability standards but requires DNSPs to develop targets. The Businesses targets are based on the AER's service target performance incentive scheme (**STPIS**) targets. The STPIS targets are determined based on average performance over the preceding five-year period.

The Businesses consider that this approach is efficient and prudent because, under the STPIS, it is financially incentivised to maintain and improve service performance based on the STPIS targets. In particular, the STPIS rewards or penalises a DNSP where performance is better or worse than the target performance level. Provided the rewards and penalties under the STPIS are consistent with community expectations, the STPIS will result in the optimal level of performance being delivered to Victorian electricity consumers.

2.3. National framework for performance standards

In accordance with schedule 2 of the Australian Energy Market Agreement (**AEMA**), Jurisdictional Governments are currently responsible for determining performance standards.

The Businesses consider that the current governance arrangements are efficient and appropriate and that the costs of establishing a national governance framework for these matters would far outweigh any benefits.

However, if the AEMC decided to establish a national governance framework for performance standards, including monitoring, enforcing and making any future changes to current standards, then the Businesses propose the following arrangements.

Reliability targets

A national approach to reliability targets should be incorporated into the Australian Energy Regulator's (**AER**) national STPIS as this provides an efficient basis for determining reliability targets.

The AER should undertake full consultation on any proposed amendments to the basis for determining reliability targets and the rewards/penalties provided under the national STPIS.

A national approach for governing and reporting on performance standards does not require uniformity in the level of these standards across jurisdictions and it should not be pursued for its own sake.

¹ For example, within CitiPower's own network, different planning criteria apply to the central business district compared to the rest of the network. This is recognised in the Victorian Electricity Distribution Code.

Planning standards

The current planning standards should be consolidated into a single regulatory instrument governed by the AEMC. Any changes to the current planning standards should be informed by an expert panel, comprising industry representatives, established and coordinated by the AEMC. Again, any such national planning standards should not require uniformity in the levels of standards that are applied between jurisdictions.

The AEMC is best placed to undertake this role because, as the independent rule maker, it has the ability to consult on such matters and obtain technical advice as required.

2.4. Nature and timing of future changes to performance standards

The Businesses propose that any future fundamental changes to performance standards should only be made on the basis of the following criteria:

- A rigorous cost benefit analysis that supports a need for change;
- A clear public consensus that change is required and customers want, and are willing to pay for, the new performance standards. This decision should be made in the context of understanding the direct relationship between DNSPs' performance standards, expenditure programs and network prices;
- DNSPs are fully compensated for their past investments – this should be specified in Chapter 6 of the Rules; and
- DNSPs can recover the costs of delivering any new performance standards through their network charges – this should also be specified in Chapter 6 of the Rules.

These criteria are important because DNSPs must plan their networks and undertake investment in distribution infrastructure to meet these standards. Investment in distribution infrastructure is costly, requires appropriate lead time to identify the most efficient and prudent investment solution and is characterised by long lived assets. Accordingly, the Businesses caution against frequent changes to performance standards, particularly where they are externally imposed.

Further, the timing of any future changes to performance standards should have regard for the timing of DNSPs' price resets. This is because it typically takes a DNSP more than a year to prepare well justified expenditure forecasts to the AER for the purposes of an electricity distribution price review and that the AER also takes several months to make its assessment and to form a view of efficient and prudent expenditure. To this end, the Businesses consider that any changes to their current performance standards arising from this review should be completed by end 2013 having regard for the next Victorian regulatory control period commencing on 1 January 2016.

2.5. Worst served customers

The Businesses support investment to improve service quality to the worst served customers. The Businesses emphasise however, that the AER did not provide funding

for investment for worst served customers in its 2011-15 Final Distribution Determination². In particular, the AER:

- Rejected the Businesses proposal to undertake projects during the current 2011-15 regulatory control period to address worst served customers; and
- Based its STPIS targets on average performance, which does not promote investment for worst served customers.

The service level received by the worst served customer is therefore largely determined by what the AER is prepared to fund. The Businesses support improving services to these customers but can only undertake such investment where they are funded or incentivised to do so through the AER's Distribution Determination.

2.6. GSL payments

The Businesses emphasise that DNSPs should be compensated for any changes to their risk profile, including any exposure to greater potential liability, arising from any changes to their GSL regimes.

3. Closing

Please do not hesitate to contact Stephanie McDougall, Manager Regulatory Projects, on (03) 9683 4518 or smcdougall@powercor.com.au if you would like to discuss the positions presented in this submission.

Yours sincerely



Brent Cleeve
MANAGER REGULATION

²AER, 2011-15 Victorian Electricity Distribution Network Service Providers Distribution Determination. Found at: http://www.aer.gov.au/sites/www.aer.gov.au/files/Victorian%20distribution%20determination%20final%20decision%202011-2015%20%2829%20October%202010%29_1.pdf