29 November 2011

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 – NSW WORKSTREAM (EPR0027)

I refer to the AEMC's Issues Paper on the review of distribution reliability outcomes and standards – NSW workstream. Endeavour Energy's responses to the eight questions raised in the Issues Paper are provided below.

### Question 1 - Terms of Reference for the NSW workstream

Endeavour Energy supports the AEMC's views on the scope of the MCE's terms of reference.

### Question 2 - Required considerations during the NSW workstream

Endeavour Energy is supportive of the factors outlined in the MCE's terms of reference and which the AEMC is required to have regard to when undertaking the NSW workstream.

An additional factor for the AEMC to consider during its conduct of the NSW workstream is the need to ensure consistency between the NSW licence conditions and the AER's Service Target Performance Incentive Scheme (STPIS). Inconsistencies between the two regimes could lead to perverse outcomes such as the situation whereby a DNSP is financially penalised for not meeting the STPIS standards but does in fact meet the licence conditions. This could drive inappropriate investment incentives for the DNSP and mean that the AER is in fact determining the reliability standards for the jurisdiction.

### Question 3 - Customer service standards

Endeavour Energy supports the exclusion of Customer Service Standards from the scope of the NSW workstream on the basis that they do not have a significant impact on the investments that we make in reliability improvement and have no impact on the reliability outcomes achieved.

### Question 4 - Best practice national and international approaches to distribution reliability

With regard to the AEMC's consideration of best practice approaches to distribution reliability, Endeavour Energy would urge caution in comparing the results achieved by distribution companies in different regulatory jurisdictions. The regulatory framework is only one variable impacting on both

absolute results and trends in reliability results over time. Factors such as network age, geographical factors, the extent to which the supply chain from generator through to customer is integrated (for example some DNSPs only manage 11 and 22kV systems whilst others manage transmission and sub-transmission systems as well), contracting market maturity, legacy issues of network design / construction, etc will all have an impact that may not be immediately apparent given the scope of the benchmarking study that will be possible given the time constraints.

It is important that the AEMC considers long term trends in cost and reliability to ensure that the regulatory framework is providing incentives that lead to sustainable outcomes.

Endeavour Energy would also welcome the opportunity to provide input into and also critically review the AEMC's proposed paper to the MCE on best practice national and international approaches to delivering distribution reliability outcomes.

**Question 5 - Selection of alternative scenarios for NSW distribution reliability outcomes**

Endeavour Energy is keen to engage with the AEMC in the development of alternative scenarios for distribution reliability outcomes. It should be noted, however, that given the short time frames for the review, it will not be possible to rigorously consider the impact of scenarios that are substantially different from the regime that currently operates in NSW. We would anticipate that the scenarios are based around the current licence conditions structure with some adjustment to the various parameters. Possible examples of alternative scenarios include:

1. changes to the 1% risk factor that currently applies to the supply security criteria;
2. different threshold levels of SAIDI for the different feeders classes or individual feeder standards;
3. differing times for the restoration of supply; and
4. different capacity levels for network elements before supply security criteria apply (eg 20MVA and above zone substations rather than 10MVA before n-1 supply security is required).

Consideration of alternative scenarios that are based on an entirely different structure, for example a move to probabilistic planning, would be difficult to properly evaluate in the time allowed.

**Question 6 - Estimating the costs of meeting alternative distribution reliability outcomes**

Endeavour Energy supports the factors outlined in the Issues Paper to be taken into account by the AEMC in assessing the costs or savings of achieving alternative reliability outcomes.

In considering the costs of meeting the various reliability scenarios, the AEMC also needs to be aware that the significant capital expenditure that has been incurred in this current regulatory period has been for the purposes of providing adequate capacity into the network to allow n-1 security on the sub-transmission network. While a change to the n-1 standard will have a capital expenditure impact for future works, it is likely to have only a small impact affecting timing of expenditure rather than the volume of expenditure.

Reliability outcomes are most impacted by expenditure at the distribution feeder level which only constitutes a minor component of Endeavour Energy's overall capital expenditure program.

**Question 7 - Estimating the willingness of NSW customers to pay for distribution reliability**

Endeavour Energy has some concerns with the proposed approach to assessing the willingness of NSW customers to pay for reliability. Simply applying the Victorian Value of Customer Reliability (VCR) methodology without first fully understanding the characteristics of the NSW customers could lead to flawed outcomes. For example, the differing levels of gas penetration between the states, and even across NSW, may lead to customers having different views on the willingness to pay for reliability of their electricity supply. Also, a customer's recent reliability experience should be taken into account when assessing their willingness to pay for improved or lower reliability, which suggests larger segregation of the different customer types depending upon which DNSP they are connected to.

The short timeframe suggested by the AEMC for undertaking the willingness to pay study is also of concern. Endeavour Energy believes that to undertake a willingness to pay study will require a large amount of resources and data and require at least 12 months for a comprehensive review to be completed. It would not seem possible then for the AEMC meet the timeframe for delivering the study without compromising its integrity and still provide meaningful outcomes which can be used in any analysis of the costs and benefits of the different reliability scenarios.

In regard to the proposed customer types, Endeavour Energy does not segregate its customers into the types suggested by the AEMC. We are able to segregate by residential and commercial/industrial based on the tariff applicable to the customer. Determining individual customers of a certain type on specific categories of feeder may be an issue depending on how AEMC wishes to undertake its sampling.

The AEMC should also note that Endeavour Energy's Standard Form Customer Connection Contract details the other parties to whom we may disclose customer's information. Generally this is restricted to agents and contractors of Endeavour Energy and the customer's retailer. We are also permitted to disclose this information to relevant regulators and authorities where the law requires or permits us to do so. In conducting the willingness to pay study, if it wishes to obtain access to individual customer information, then the AEMC will need to be able to demonstrate that Endeavour Energy is permitted to provide this information under law or the AEMC will need to obtain the customer's permission for us to disclose their information.

**Question 8 - Cost-benefit assessment of alternative scenarios for NSW distribution reliability outcomes**

In considering the cost-benefit assessment of the alternative scenarios for NSW distribution reliability outcomes, it will be important for the AEMC to recognise the impact of any changes over the longer term. Short term reductions to expenditure levels will likely have a minimal impact on reliability outcomes; however, the longer term reliability outcomes would be expected to worsen. As the reliability worsens, customers' willingness to pay for reliability will change suggesting that the use of a constant willingness to pay approach may not be appropriate.

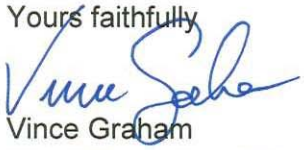
**General Considerations**

Endeavour Energy notes that the AEMC will not be recommending any specific changes to the NSW distribution licence conditions as part of its advice and that the NSW Government will make any decision on changes to the licence conditions after the release of the AEMC's final report in August 2012. Due to the timing of the 2014 AER Determination, any changes to the distribution licence conditions will need to be advised within two months of the release of the AEMC's final report if they

are to be properly assessed and incorporated into Endeavour Energy's regulatory proposal, due to be lodged with the AER by May 2013.

If you have any queries regarding this submission please do not hesitate to contact our Manager Network Regulation, Mr Mike Martinson on (02) 9853 4375.

Yours faithfully



Vince Graham
**Chief Executive Officer**